***Query No. 25***

***Subject: Accounting Treatment under Ind AS 37 for Extended Producer Responsibility (EPR) for End of Life of Vehicles for Original Equipment Manufacturer (OEM) under Ind AS framework.***[1]

## A. Facts of the Case

1. ABC Limited (hereinafter referred to as 'the Company') is a listed entity engaged in the design, manufacture, and sale of a diverse range of automotive vehicles. It also produces engines for various industrial applications. As an original equipment manufacturer (OEM), the Company operates manufacturing facilities within India. The financial statements of the Company are prepared in accordance with the Indian Accounting Standards (Ind AS) as notified under Section 133 of the Companies Act, 2013.

2. The querist has stated that the Environment Protection (End-of-Life Vehicles) Rules (hereinafter referred to as 'ELV Rules') for Original Equipment Manufacturers (OEM) were notified in January 2025, w.e.f. April 1, 2025. As per Clause 4 of the ELV Rules, the OEM must fulfil the obligation of Extended Producer Responsibility (EPR) for the vehicles that the producer has introduced or introduces in the domestic market, including vehicles put to self-use to ensure the scrapping targets.

3. The ELV Rules provide for annual scrapping targets starting from financial year (F.Y.) 2025-26 and the annual target is linked to percentage of steel used in vehicles sold in the past years, i.e., 20 years backwards for non-transport and 15 years backwards for transport vehicles. The annual scrapping target for the F.Y. 2025-26 is determined basis 8% of the weight of steel used in vehicles placed in the market 15/20 years back, i.e. F.Y. 2010-11/F.Y. 2005-06. This 8% of weight of the steel used in vehicles will increase to 13% of steel used for calculating scrapping target of F.Y. 2030-31 and further to 18% of steel used in the F.Y. 2035-36 onwards.

4. Rules accordingly envisage the annual cash outflow for the purchase of EPR certificates from Registered Vehicle Scrapping facilities equivalent to annual scrapping targets in the respective compliance years specified in the Rules as below:

| Category | No. of years for compliance | Vehicle Sales Year | EPR Compliance Year |
|---|---|---|---|
| Transport Vehicles | 15 | 2010-11 | 2025-26 |
| Non-Transport Vehicles | 20 | 2005-06 | 2025-26 |

Accordingly, the compliance is to be made for respective past 15th/20th year from F.Y. 2025-26 onwards.

5. The querist has also stated that Sub-rule (6) of Rule 4 of the ELV Rules states as follows:

> "In case the producer stops its operations, the producer must comply with its Extended Producer Responsibility in respect of vehicles already made available in the market till closure of operations, in accordance with these rules."

[1] Opinion finalised by the Committee on 29.03.2026.

The Environment Compensation (EC) Cess Rules and cap and floor rates for the EPR cost have not yet been notified and are under discussion with all the stakeholders. The EC Rules significantly affect the measurement of EPR cost as it links the actual cost of recycling and managing waste to EPR cost.

*Accounting Treatment:*

6. According to the querist, as per Indian Accounting Standard (Ind AS) 109, 'Financial Instruments', a financial liability arises from a contractual obligation. A contract is defined as an agreement between two or more parties that has clear economic consequences and is usually enforceable by law. As this liability is not due to any contractual agreement between the parties but due to enactment of a legislation, it will not get covered under Ind AS 109.

7. The querist has further stated that as per Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', a liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

A legal obligation is an obligation that derives from:

(a) a contract (through its explicit or implicit terms);
(b) legislation; or
(c) other operation of law.

This enacted law has created an obligation, but there is substantial uncertainty regarding the timing or exact amount of the future expenditure required to settle that obligation as there are representations made to the Government for amending Rules. Hence, as per querist, it will not be classified as a liability which requires certainty of amount and timing but will be classified as a provision.

8. If these conditions are applied to ELV EPR Rules,

- Automotive entities have a present legal obligation as on 1st April 2025 since the Rules have been enacted w.e.f. 1st April, 2025.
- The present legal obligation of meeting the annual EPR targets is a result of a past event i.e. sale of vehicles in past 15 and 20 years. Rule 4(6) even mandates that such obligations would continue to exist even when Producer discontinues operations, for its past sales until closure of operations. This condition requires the Company to record a provision for the past periods with immediate effect. The settlement of this present obligation can be enforced by the law and there is no realistic alternative to settling these obligations but to comply.
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation i.e. buying the EPR certificates to discharge the EPR targets.
- Once the EC Rules are released, a reliable estimate can be made of the amount of the obligation. Even in the absence of the EC Rules, best estimate of the EPR liability would be required to be made.

  Basis the above points, Ind AS 37 necessitates recognition of a provision for the cost of EPR certificates for all vehicles sold over the past 20 years (non-transport vehicles) and

15 years (transport vehicles), immediately on the enactment of the law. This results in a cumulative charge to profits in the current financial year which would mean a disproportionate financial impact immediately on enactment, contrary to the annual compliance structure envisioned by the ELV Rules. Hence, it is mandated to provide cumulative liability for all 15/20 years on April 1, 2025.

## B. Query

9. On the basis of the above, the querist has sought the opinion of the Expert Advisory Committee on the following issues:

(i) What is the obligating event as per Ind AS 37 under ELV Rules?

(ii) What is the accounting treatment as per Ind AS 37 under ELV Rules for the vehicle sales made from F.Y. 05-06 for non-transport vehicles and from F.Y. 10-11 for transport vehicles in 1st compliance year i.e. F.Y. 25-26? Is above proposed accounting treatment correct?

(iii) Does sub rule (6) of Rule 4 trigger cumulative provisioning of past sales as per question No. 2 above? If so, should this be entirely charged to the statement of profit and loss in the period of initial recognition or should the charge relating to the earlier years be adjusted to retained earnings?

## C. Points considered by the Committee

10. The Committee notes that the basic issue raised by the querist relates to accounting treatment of obligation (if any) as per Ind AS 37 under ELV Rules for the vehicle sales made from F.Y. 05-06 for non-transport vehicles and from F.Y. 10-11 for transport vehicles in the 1st compliance year of ELV Rules, i.e., F.Y. 2025-26. 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, measurement of the obligation, accounting for obligations for vehicle sales made from F.Y. 2025-26 onwards, interim financial reporting for the above-mentioned obligations, accounting (if any) under Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', accounting impact of new proposed (yet to be enacted) Rules or enactments that may bring any changes in the existing legal enactments/Rules for example, the Environment Compensation (EC) Cess Rules (yet to be notified), etc. Further, the Committee has answered the issue only from accounting perspective, considering the requirements of Indian Accounting Standards (Ind ASs), notified under the Companies (Indian Accounting Standards) Rules, 2015, as amended/revised from time to time and not from legal perspective, such as, legal interpretation of the Environment Protection (End-of-Life Vehicles) Rules, 2025, the Environment Compensation (EC) Cess Rules (yet to be notified) etc.

At the outset, the Committee agrees with the contention of the querist that the obligation or liability arising out of ELV Rules is not due to any contractual agreement between the parties but due to enactment of a legislation, and therefore, it will not meet the definition of 'financial liability' under Ind AS 109, 'Financial Instruments'.

11. The Committee notes from the Facts of the Case that the Company, viz., ABC Limited, being engaged in manufacturing and sale of automotive vehicles, is subject to the Extended Producer Responsibility (EPR) obligations under the Environment Protection (End-of-Life Vehicles) Rules, 2025 (ELV Rules), which were notified in January 2025 and are effective from

April 1, 2025. In this regard, the Committee notes the following clauses from the Environment Protection (End-of-Life Vehicles) Rules, 2025:

"**3. Definitions**. – (1) In these rules, unless the context otherwise requires, –

…

(j) "Extended Producer Responsibility" means responsibility of a producer for scrapping of the End-of-Life vehicle in environmentally sound manner;

(k) "Extended Producer Responsibility certificate" means a certificate issued under rule 9 by the Central Board;"

"**4. Responsibilities of producer –** (1) Every producer must,-

(i) fulfil the obligation of Extended Producer Responsibility for the vehicles that the producer has introduced or introduces in the domestic market, including vehicles put to self-use to ensure the scrapping targets as specified in **the Schedule**;

…

(iv) fulfil the Extended Producer Responsibility either through purchase of Extended Producer Responsibility certificate generated by its own Registered Vehicle Scrapping Facility or by any entity having Registered Vehicle Scrapping Facility;

…

(6) In case the producer stops its operations, the producer must comply with its Extended Producer Responsibility in respect of vehicles already made available in the market till closure of operations, in accordance with these rules."

"**9. Extended Producer Responsibility certificate. –** (1) The Central Board shall issue the Extended Producer Responsibility certificate through the centralised online portal in favour of the Registered Vehicle Scrapping Facility. Central Board will develop mechanism for such exchange on the centralised online portal.

(2) An Extended Producer Responsibility certificate shall be generated on basis of the weight of steel recovered from the End-of-Life vehicles processed at the Registered Vehicle Scrapping Facility or other steel scrap materials related to automobile sector processed at Registered Vehicle Scrapping Facility in accordance with the Motor Vehicles (Registration and Functions of Vehicle Scrapping Facility) Rules, 2021."

**"Schedule** [see rule 4(1)(i)]

**Targets for Extended Producer Responsibility**

**1.** In case of any producer introducing vehicle in the market, the Extended Producer Responsibility targets shall be applicable for different categories of vehicle, based on the average life of the vehicle mentioned in the Tables below for the respective categories of vehicle.

**2.** The Extended Producer Responsibility targets comprise of scrapping of steel used in vehicles as mentioned in the Tables below.

**3.** The scrapping of End-of-Life vehicles means scrapping of steel from End-of-Life vehicles.

…

**TABLE**

**(i) For non-transport vehicles:**

| **Extended Producer Responsibility target for Financial Year** | **Extended Producer Responsibility target (Weight)** |
|---|---|
| (1) | (2) |
| 2025-26 | Minimum 8% of the steel used in vehicles in 2005-06 |
| 2026-27 | Minimum 8% of the steel used in vehicles in 2006-07 |
| 2027-28 | Minimum 8% of the steel used in vehicles in 2007-08 |
| 2028-29 | Minimum 8% of the steel used in vehicles in 2008-09 |
| … | … |

**Note:** 30% of the Extended Producer Responsibility targets, of any year, may be carried forward to the subsequent four years for its Extended Producer Responsibility target compliance.

**(ii) For transport vehicles:**

| **Extended Producer Responsibility target for Financial Year** | **Extended Producer Responsibility target (Weight)** |
|---|---|
| (1) | (2) |
| 2025-26 | Min 8% of the steel used in vehicles in 2010-11 |
| 2026-27 | Min 8% of the steel used in vehicles in 2011-12 |
| 2027-28 | Min 8% of the steel used in vehicles in 2012-13 |
| 2028-29 | Min 8% of the steel used in vehicles in 2013-14 |
| … | … |

**Note:** 30% of the Extended Producer Responsibility targets, of any year, may be carried forward to the subsequent four years for its Extended Producer Responsibility target compliance."

From the above, the Committee notes that the ELV Rules mandate that a producer must fulfil the obligation of Extended Producer Responsibility for the vehicles that the producer has introduced or introduces in the domestic market to ensure the scrapping targets as specified in the Schedule, through purchase of Extended Producer responsibility certificate generated by a Registered Vehicle Scrapping Facility (owned by it or any other entity). Further, as per Rule 4 (6), EPR continues in respect of vehicles already made available in the market, even if the producer ceases operations. The Schedule to Rules prescribes annual EPR targets linked to the average life of vehicles, requiring scrapping of a specified minimum percentage (starting at 8%) of steel used in vehicles sold 20 years earlier for non-transport vehicles and 15 years

earlier for transport vehicles. Further, 30% of any year's EPR target may be carried forward for compliance to the subsequent four years.

12. With regard to the issue raised regarding whether the Company in the extant case has a present obligation that needs to be recognised as a liability or provision, the Committee notes the following requirements of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', notified under the Companies (Indian Accounting Standards) Rules, 2015 and Accompanying Guidance on International Accounting Standard (IAS) 37 (International Standard corresponding to Ind AS 37), issued by International Accounting Standards Board (IASB):

*Ind AS 37*

**"A *provision* is a liability of uncertain timing or amount.**

**A *liability* is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.**

**An *obligating event* is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.**

**A *legal obligation* is an obligation that derives from:**

**(a) a contract (through its explicit or implicit terms);**

**(b) legislation; or**

**(c) other operation of law."**

**"14 A *provision* shall be recognised when:**

**(a) an entity has a present obligation (legal or constructive) as a result of a past event;**

**(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and**

**(c) a reliable estimate can be made of the amount of the obligation.**

**If these conditions are not met, no provision shall be recognised.**

**Present obligation**

**15 In rare cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period."**

**"Past event**

17 A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

(a) where the settlement of the obligation can be enforced by law; or

(b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.

18 Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future. The only liabilities recognised in an entity's balance sheet are those that exist at the end of the reporting period.

19 It is only those obligations arising from past events existing independently of an entity's future actions (ie the future conduct of its business) that are recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage, both of which would lead to an outflow of resources embodying economic benefits in settlement regardless of the future actions of the entity. Similarly, an entity recognises a provision for the decommissioning costs of an oil installation or a nuclear power station to the extent that the entity is obliged to rectify damage already caused. In contrast, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a certain type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation, it has no present obligation for that future expenditure and no provision is recognised."

**"Reliable estimate of the obligation**

25 The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other items in the balance sheet. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision.

26 In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability (see paragraph 86)."

*Accompanying Guidance on International Accounting Standard (IAS) 37*

**"Example 2B Contaminated land and constructive obligation**

An entity in the oil industry causes contamination and operates in a country where there is no environmental legislation. However, the entity has a widely published environmental policy in which it undertakes to clean up all contamination that it causes. The entity has a record of honouring this published policy.

**Present obligation as a result of a past obligating event** – *The obligating event is the contamination of the land,* which gives rise to a constructive obligation because the

conduct of the entity has created a valid expectation on the part of those affected by it that the entity will clean up contamination.
**An outflow of resources embodying economic benefits in settlement –** Probable.

**Conclusion** – A provision is recognised for the best estimate of the costs of clean-up (see paragraphs 10 (the definition of a constructive obligation), 14 and 17)."

(Emphasis supplied by the Committee.)

13. The Committee notes from the above that "a liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits". Thus, one of the essential criteria for recognising a liability is that the entity has a present obligation as a result of past event. A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case when, inter alia, the settlement of the obligation can be enforced by law.

14. The Committee is of the view that since in the extant case, the obligation to meet the annual scrapping target is enforced by the ELV Rules, the Company has no realistic alternative to settling this obligation.

15. The Committee further notes from the above-reproduced Accompanying Guidance that an obligation arises when an entity conducts the activity to which the charge is linked or which triggers the payment of charge. Merely an enactment of law is not sufficient to give an entity a present obligation. In other words, an entity has a present obligation only when the event to which the law applies has occurred. Thus, the past obligating event in the extant case is the introduction of vehicles in the market (viz., sale) by the Company, which on ELV Rules coming into effect, gives rise to a legal obligation to meet the scrapping targets as per ELV Rules.

16. The Committee further notes that as per paragraph 19 of Ind AS 37, it is only those obligations arising from past events existing independently of an entity's future actions (or future conduct of business) that meet the definition of a liability. In this regard, the Committee notes that in the extant case, as per ELV Rules (Rule 4(6)), even if the Company ceases its business, EPR obligations continue in respect of vehicles already introduced in the market. Thus, irrespective of the Company's future operations or actions, the obligation of meeting the annual scrapping targets for the vehicles already introduced in the market in the past years continues and therefore, as per paragraph 19 of Ind AS 37, the liability of the Company towards those obligations exists.

17. The next essential criterion for recognising a liability is the outflow of resources embodying economic benefits will be required to settle the obligation. In this regard, the Committee notes from ELV Rules and as discussed above, the Company has to incur expenditure on meeting the scrapping targets as specified in the Schedule either by purchasing the EPR certificates generated by another entity or by its own registered scrapping facilities. Thus, outflow of resources embodying economic benefits will be required to settle the obligation.

18. Accordingly, the Committee notes from the above discussion that in the extant case, as per ELV Rules, introduction of the vehicles in the market in an year triggers an obligation on the Company to meet the scrapping targets as per the Schedule. Thus, a present obligation to

meet the scrapping targets exists due to the past event of introducing the vehicles in the market, which is backed by the law (viz., ELV Rules), making it a legal obligation, the settlement of which will require outflow of resources embodying economic benefits. Further, as noted above, such obligation exists independently of the Company's future actions (future conduct of business). The Company's future actions will determine only the means by which the entity settles its present obligation (viz., by purchasing the certificates generated by another scrapping entity or by its own scrapping facility), or the timing of settlement (for example, in one year or deferment over a period of 4 years up to 30% of any year's EPR target as allowed under the ELV Rules).

Thus, the EPR obligations in the extant case meet the definition of liability as per the requirements of Ind AS 37.

19. The Committee further notes from the above requirements of Ind AS 37 that "a provision is a liability of uncertain timing or amount". Thus, the difference between the provision and liability is that of uncertainty with regard to timing and amount of obligation or liability. In this regard, the Committee notes that there may be uncertainties regarding the measurement of the amount of future expenditure required to settle the present obligation arising out of ELV Rules, one of those may include the impact, if any, of the yet to be notified Environment Compensation (EC) Cess Rules that, may affect the measurement of EPR costs. In this context, the Committee notes that one of the recognition conditions as per paragraph 14 of Ind AS 37 is that a reliable estimate can be made of the amount of the obligation. The Committee notes from paragraphs 25 and 26 of Ind AS 37, that *except in extremely rare cases*, an entity will be able to determine a range of possible outcomes and, therefore, can make a reliable estimate of the obligation. Accordingly, in the extant case, since a reliable estimate of the amount of obligation under ELV Rules in accordance with measurements requirements prescribed under Ind AS 37, as discussed in the following paragraph, can be made as also mentioned by the querist in paragraph 8 above, the conditions of recognition of provision as per Ind AS 37 seem to be satisfied.

20. As far as measurement of the provision or liability under ELV Rules, the Committee notes the following paragraphs of Ind AS 37:

> **"Measurement**
>
> **Best estimate**
>
> **36 The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.**
>
> 37 The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the end of the reporting period. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

38 The estimates of outcome and financial effect are determined by the judgement of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting period.

39 Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is 'expected value'. The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60 per cent or 90 per cent. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used."

From the above, the Committee notes that the amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The estimates of outcome and financial effect are determined by the judgement of the management of the entity, taking into consideration various factors, such as, experience of similar transactions, reports from independent experts and any additional evidence provided by events after the reporting period, etc. Also, as per the Standard, where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

21. With regard to timing of creation or recognition of liability, the Committee notes paragraph 21 of Ind AS 37 as follows:

"21 An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified or when the entity publicly accepts responsibility for rectification in a way that creates a constructive obligation."

From the above, the Committee is of the view that in the extant case, introduction of vehicle in the earlier years becomes an obligating event when ELV Rules came into effect requiring EPR targets to be accomplished in respect of vehicles already introduced in the market. Accordingly, the Company should recognise a provision/liability in the extant case with effect from ELV Rules coming into effect, in respect of the already introduced vehicles, as discussed above.

22. With regard to the recognition of impact of creating the provision/liability as per ELV Rules in the Statement of Profit and Loss or retained earnings, the Committee notes the following requirements of Ind AS 1,'Presentation of Financial Statements':

**"88 An entity shall recognise all items of income and expense in a period in profit or loss unless an Ind AS requires or permits otherwise.**

89 Some Ind ASs specify circumstances when an entity recognises particular items outside profit or loss in the current period. Ind AS 8 specifies two such

circumstances: the correction of errors and the effect of changes in accounting policies. Other Ind ASs require or permit components of other comprehensive income that meet the *Conceptual Framework's* definition of income or expense to be excluded from profit or loss (see paragraph 7)."

From the above, the Committee is of the view that in the extant case, the provision/liability recognised shall be charged to the Statement of Profit and Loss; the adjustment to retained earnings would not be appropriate, as this is neither a correction of a prior-period error, change in accounting policy, nor required or permitted by any other Ind AS.

**D. Opinion**

23. On the basis of the above, the Committee is of the following opinion on the issues raised in paragraph 9 above:

(i) As discussed in paragraph 15 above, the past obligating event in the extant case is the introduction of vehicles in the market (e.g., sale) by the Company, which on ELV Rules coming into effect, gives rise to a legal obligation to meet the scrapping targets as per ELV Rules.

(ii) & (iii) The Company is required to recognise a provision/liability in respect of the EPR obligation in the extant case with effect from ELV Rules coming into effect, in respect of the already introduced vehicles, as discussed in paragraphs 18 to 21 above. Further, the amount recognised shall be charged to the Statement of Profit and Loss in the period in which the obligation arises and not as an adjustment to retained earnings, as discussed in paragraph 22 above.

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