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Foreword

“Welcome to the Assurance Gazette for August 2025 Edition.”

This edition provides an overview of the Reserve Bank of India (Co-Lending Arrangements) Directions, 2025 (the “Co-Lending Directions”), issued on August 6, 2025. These new directions aim to provide specific regulatory clarity on the permissibility of co-lending arrangements (CLA) while addressing prudential and conduct-related aspects. This edition analyses the key provisions, their implications, and the necessary steps for compliance. In this edition we also bring you highlights of the revised Technical Guide on Accounting for CSR Expenditure (July 2025) by ICAI’s CL&CGC incorporating recent amendments and clarifications, offering practical insights into recognition, presentation, and disclosure. With FAQs, it serves as a vital resource to ensure compliance, transparency, and effective CSR reporting aligned with national development priorities.”

Reserve Bank of India (Co-Lending Arrangements) Directions, 2025



Introduction

The RBI has issued new, comprehensive directions on co-lending arrangements to broaden their scope and provide a clear regulatory framework. These directions will come into effect on **January 1, 2026**, or an earlier date chosen by a Regulated Entity (RE) as per its internal policy. Any new CLA entered into after the effective date must comply with these directions.

Key Highlights

Applicability

The Co-lending Directions are applicable to:

- i. Commercial Banks (excluding Small Finance, Local Area, and Regional Rural Banks)
- ii. All-India Financial Institutions, and
- iii. Non-Banking Financial Companies (including Housing Finance Companies)

Note: These directions shall not apply to loans sanctioned under multiple banking, consortium lending, or syndication.

General Guidelines

A key provision is that each RE in a CLA must retain a minimum **10% share** of the individual loans on its books. The credit policy of RE's must cover CLAs, including portfolio limits, target segments, partner due diligence, and provisions for customer service and grievance redressal.

The agreement between co-lending partners must detail the terms and conditions, borrower selection criteria, and a mechanism for grievance redressal. The loan agreement with the borrower must clearly disclose the segregated roles of the REs and identify the entity that serves as the single point of contact for the customer. Any change in the customer interface requires prior intimation to the borrower.

Regulated Entities must provide borrowers with complete CLA details in line with RBI's Key Facts Statement for Loans & Advances guidelines and can classify their share of eligible CLA loans as priority sector lending under the applicable RBI Master Directions.

NBFCs shall adhere to the applicable accounting standards, while booking of unrealised profit under CLAs, if applicable. However, such profits, shall be deducted from Common Equity Tier 1 capital or net owned funds for meeting regulatory capital adequacy requirement till the maturity of such loans.

Interest Rate and Other Fees/ Charges

The interest rate for the borrower will be a **blended interest rate**, calculated as a weighted average of the rates charged by each RE based on their proportionate funding share. Any fees or charges must be included in the Annual Percentage Rate (APR) and disclosed in a Key Facts Statement (KFS). The originating RE may provide a default loss guarantee of up to **five percent** of the loans outstanding under the CLA.

The credit policy of RE must set objective criteria for lending service fees based on factors like service type and loan amount, without including any credit enhancement or default loss guarantee unless specifically permitted.

Operationally, the partner RE must have an irrevocable commitment to take its share of the loan onto its books within **15 calendar days** of disbursement by the originating RE. All transactions between the REs and with the borrower must be routed through an escrow account.



Operational Arrangements

Under the CLA framework, the partner RE must irrevocably commit to taking its loan share into its books within 15 days of disbursement by the originating RE, as per the agreement and KFS. If transfer is not completed within this period, the loan remains with the originating RE and may only be transferred in line with Master Directions – Transfer of Loan Exposure, 2021 (“MD-TLE”).

Each RE must maintain separate borrower accounts for its share, with all disbursements and repayments routed through a designated escrow account. CLA loans must be covered in internal and statutory audits to ensure compliance with policies, contractual terms, and RBI norms.

REs must have a business continuity plan to ensure uninterrupted loan servicing in case of CLA termination. All KYC requirements under Master Direction – KYC, 2016 apply, with partner REs allowed to rely on originating REs for customer identification. Both parties must also follow applicable fair practices codes and grievance redressal mechanisms.

Each RE must report its share of the loan account to Credit Information Companies in line with the Credit Information Companies (Regulation) Act, 2005 and applicable RBI rules.

Any transfer of CLA-originated loan exposures—whether to third parties or between REs—must comply with MD-TLE and third-party transfers require mutual consent of both originating and partner REs.

Asset Classification Norms and disclosures

The directions also specify that REs must apply a **borrower-level asset classification**. This means if one RE classifies its exposure to a borrower under CLA as a Non-Performing Asset (NPA), the other RE must apply the same classification. REs are required to share this information on a near-real-time basis, no later than the end of the next working day. Each RE must also report its share of the loan account to Credit Information Companies (CICs).

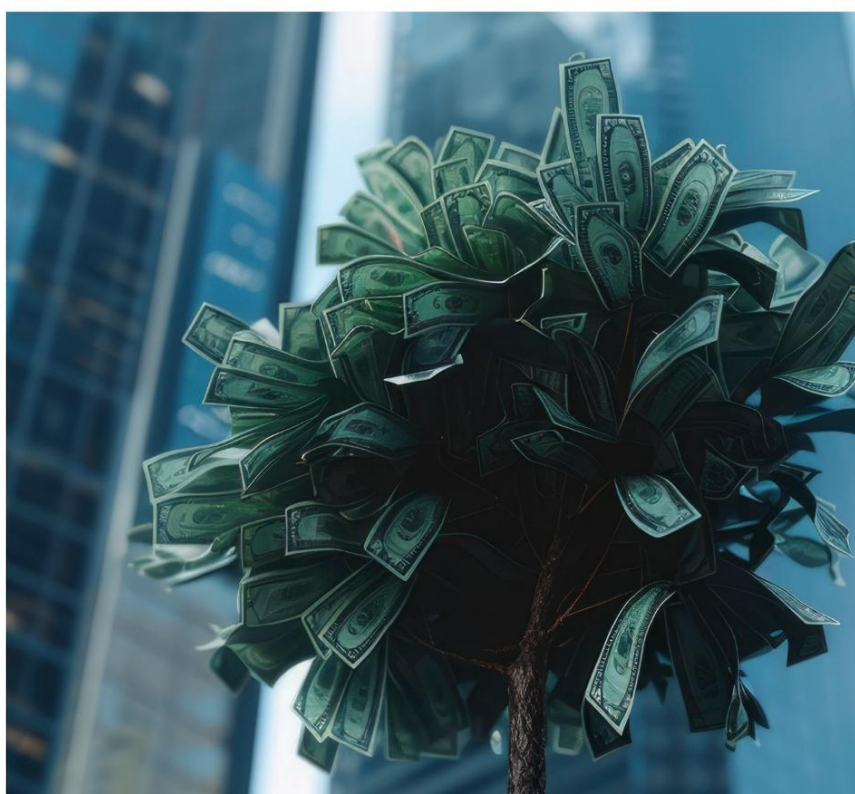
In addition to the applicable disclosure requirements under extant regulations, REs shall also prominently disclose on their website, a list of all active CLA partners.

REs shall also make appropriate disclosures in their financial statements, under ‘Notes to Accounts’, relating to necessary details of CLAs on an aggregate basis. The details may inter alia include quantum of CLAs, weighted average rate of interest, fees charged / paid, broad sectors in which CLA was made, performance of loans under CLA, details related to default loss guarantee, if any, etc. The disclosure shall be done on quarterly/annual basis, as applicable to the concerned REs.



nangia's take

The RBI's new directions on co-lending arrangements are a significant step towards a more structured and transparent lending framework. By mandating a minimum retention of 10% for each RE and introducing a clear framework for interest rate calculation and disclosure, the RBI aims to increase accountability and protect consumer interests. The requirement for a single point of interface for the borrower and a robust grievance redressal mechanism will enhance customer experience and transparency. The new rules also strengthen risk management by requiring a borrower-level asset classification and timely information sharing between REs, which will help prevent the buildup of hidden credit risks. Overall, these directions are expected to streamline co-lending operations, ensure regulatory compliance, and promote a healthier lending ecosystem in India.



Technical Insights into Accounting for CSR Expenditure

Introduction

In light of the evolving landscape and increasing complexity in executing, monitoring, and disclosing Corporate Social Responsibility (CSR) activities, the Corporate Laws & Corporate Governance Committee (CL&CGC) of the ICAI has released the “**Technical Guide on Accounting for Expenditure on Corporate Social Responsibility Activities (Revised July 2025 Edition)**”. This updated guide reflects the latest amendments, circulars, and guidance issued by the Ministry of Corporate Affairs (MCA), offering practical and comprehensive advice on key aspects of CSR accounting and compliance.

The release comes at a time when the government is placing greater focus on priority areas such as the Prime Minister’s Internship Scheme (PMIS), vocational training, skill development, and technology-driven community initiatives. As CSR activities become more structured, measurable, and aligned with national development goals, the need for accurate accounting and transparent reporting has grown significantly.

Notably, this revised edition features **over 70 Frequently Asked Questions (FAQs) on CSR**—an addition not included in earlier versions. A few important ones are as under:

I. Provisions for unspent amounts for both ‘ongoing projects’ and ‘other than ongoing projects’

FAQ: 6.1. What is the meaning of ‘ongoing project’? Which projects can be considered as ongoing?

Ongoing project has been defined under rule 2(1)(i) of the Companies (CSR Policy) Rules, 2014 as:

- (i) a multi-year project, stretching over more than one financial year;
- (ii) Having a timeline not exceeding three years excluding the year of commencement;
- (iii) Includes such project that was initially not approved as a multi-year project but whose duration has been extended beyond one year by the Board based on reasonable justification.

The project should have commenced within the financial year to be termed as ‘ongoing’. The intent is to include a project which has an identifiable commencement and completion dates. After the completion of any ongoing project, the Board of the company is free to design any other project related to operation and maintenance of such completed projects in a manner as may be deemed fit on a case-to-case basis.

FAQ: 7.3. A company has been given six months’ time to transfer the unspent CSR amount, other than the amount pertaining to ongoing projects, to any fund included in Schedule VII of the Act. Can the company spend this amount in the said period of six months on any CSR activity?

No, companies are not permitted to spend the unspent CSR amount, other than the amount pertaining to ongoing projects, on any CSR activity during the intervening period of six months after the end of the financial year. Such unspent CSR amount is required to be transferred to any fund included in Schedule VII of the Act.

FAQ: 7.7. Can an ongoing project initiated by a company in any previous financial year (for instance in FY 2019-20) be classified as an ongoing project under section 135(6) of the Act. Is the unspent amount of previous financial years also required to be transferred to the Unspent CSR Account?

No, the provisions related to ongoing projects have come into effect from 22nd January 2021, i.e., from FY 2020-21 onwards. The said provisions are prospective in effect and not applicable to projects of previous financial years.

Further, the Board of the company is free to decide the treatment of the unspent CSR amount of previous financial years prior to FY 2020-21. The Board can either transfer the amount to ‘Unspent CSR Account’ or continue as per the previous accounting practices adopted by the company.

II. Carry forward of excess CSR expenditure to subsequent years

FAQ: 3.7. If a company spends more than the requirement provided under section 135, can that excess amount be set off against the mandatory 2% CSR expenditure in succeeding financial years?

Yes, the excess amount can be set off against the required 2% CSR expenditure up to the immediately succeeding three financial years subject to compliance with the conditions stipulated under rule 7(3) of the Companies (CSR Policy) Rules, 2014.

This position is applicable from 22nd January, 2021 and has a prospective effect. Thus, no carry forward shall be allowed for the excess amount spent, if any, in financial years prior to FY 2020-21.

FAQ: 3.8. If a company cannot take the benefit of set off of excess amount spent in the previous financial year because of non- applicability of CSR provisions, will the excess amount lapse?

Yes, the law states that the excess CSR amount spent can be carried forward up to immediately succeeding three financial years; thus, in case any excess amount is left for set off, it will lapse at the end of the said period.

Example: In FY 2020-21 a company had spent Rs. 2 crores in excess. In FY 2021- 22, it sets-off Rs. 50 lakhs from such excess. However, from FY 2022-23, the company is no longer subject to CSR provisions under section 135(1). In such case, the company may continue to retain the remaining excess CSR of Rs. 1.50 crores up to FY 2023-24, and thereafter the same shall lapse.

III. Treatment of surplus from CSR activities and Recognition of income generated from CSR projects or during CSR activity execution

FAQ: 3.4. What is the meaning of surplus arising from CSR activities? How can this surplus be utilised?

Surplus refers to income generated from the spend on CSR activities, e.g., interest income earned by the implementing agency on funds provided under CSR, revenue received from the CSR projects, disposal/sale of materials used in CSR projects, and other similar income sources. The surplus arising out of CSR activities shall be utilised only for CSR purposes.

IV. CSR expenditure in the context of income tax

FAQ: 3.11. What tax benefits can be availed under CSR?

No specific tax exemptions have been extended to CSR expenditure. The Finance Act, 2014 also clarifies that expenditure on CSR does not form part of business expenditure

V. CSR spending through implementing agencies such as Section 8 companies, trusts, and cooperatives

FAQ: 5.1. What are the different modes of implementation of CSR activities?

Pursuant to rule 4 of the Companies (CSR Policy) Rules, 2014 a company may undertake CSR activities through following three modes of implementation:

- (i) Implementation by the company itself
- (ii) Implementation through eligible implementing agencies as prescribed under sub-rule (1) of rule 4
- (iii) Implementation in collaboration with one or more companies as prescribed under sub-rule (4) of rule 4.

FAQ: 5.2. Which entities are eligible to act as an implementing agency for undertaking CSR activities?

Rule 4(1) of the Companies (CSR Policy) Rules, 2014 provides the eligible entities which can act as an implementing agency for undertaking CSR activities. These are:

- (i) Entity established by the company itself or along with any other company – a company established under section 8 of the Act, or a registered public trust or a registered society, registered under section 12A and 80G of the Income Tax Act, 1961.
- (ii) Entity established by the Central Government or State Government – a company established under section 8 of the Act, or a registered trust or a registered society.
- (iii) Statutory bodies – any entity established under an Act of Parliament or a State legislature.
- (iv) Other bodies – a company established under section 8 of the Act, or a registered public trust or a registered society, registered under section 12A and 80G of the Income Tax Act, 1961, and having an established track record of at least three years in undertaking similar activities.

VI. Presentation and disclosure in financial statements

A summary of the recognition and measurement of CSR spent is as under after taking into account the amendment in section 135(5) and 135 (6) to the Companies (Amendment) Act, 2020.



Particulars	Recognition	Measurement
Amount Spent	Expense in Statement of Profit and Loss	Aggregate of: 1) Actual amount spent/ paid 2) Expenses for which there is contractual liability as benefit has been received. Less: 1) Excess amount spent which company intends to carry forward as pre-paid expenses.
Amount not Spent	Expense in Statement of Profit and Loss	Aggregate of: For "Ongoing projects", amount yet to be spent, transferred to a separate fund account. For "Other than ongoing projects", unspent amount transferred to a specified fund account
Excess Amount spent	Create Asset, if it wants so	Excess of the amount (2%) which was required to be spent on CSR during the year.

Presentation	
Statement of Profit & Loss	Balance Sheet
Separately as part of schedule of total Expenses Break up of CSR spend is to be given nature-wise if material	Any unpaid amount in respect of expenditure incurred for which there is contractual liability is to be shown as part of current liabilities and if payable beyond 12 months, then as non- current liability. For " On going projects ", amount yet to be spent, i.e, transferred to a separate fund account should be shown under current asset -other bank balances with description that these funds are earmarked for CSR spend. For " Other than ongoing projects ", unspent amount which is yet to be transferred to a specified fund account, should be shown as current liability with description that this is payable within 6 months of balance sheet date. Any excess expenditure which company decides to carry forward as Pre-paid expense, to be shown as current asset under the head other current assets.

Disclosure	
Director's Report	Notes to Accounts
<p>If there is any Unspent amount, explain reason for not Spending Amount to be spent as per section 135, less amount spent and, unless the unspent amount relates to any ongoing project, disclose that such unspent amount is to be transferred to a Specified Fund, within 6 months from the balance sheet date.</p> <p>Amount spent in excess should be disclosed, when pre-paid expense thereof has been created.</p>	<ul style="list-style-type: none"> a) Amount required to be spent by the company during the year. b) Amount of expenditure incurred c) Shortfall at the end of the year d) Total of previous years shortfall e) Reason for shortfall f) Nature of CSR activities g) Details of related party transactions, e.g., contribution to a trust / society / section 8 company controlled by the company in relation to CSR expenditure as per Accounting Standard (AS) 18, /Ind AS 24 Related Party Disclosures. h) Where a provision is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year should be shown separately



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