Moving Ahead towards Implementation of IFRS- converged Indian Accounting Standards (Ind AS)

Financial reporting quality plays a very significant role in the economic growth of a country, as it assists in conducting its economic and financial affairs in prudent and transparent manner. For taking various economic decisions, there is a need for accurate, relevant and consistent information. Aforementioned objectives can be met through establishment of sound financial reporting system in the country. The Institute of Chartered Accountants of India (ICAI) being premier accounting body in the country has always played a very influential role in taking Indian financial reporting system to new heights and achieving international benchmarks by taking necessary initiatives from time to time. In this direction, it was observed that various nations across the globe were pursuing convergence of their national Accounting Standards with International Financial Reporting Standards (IFRS) or their outright adoption. Accordingly, in order to enable Indian accountancy profession to discharge its responsibilities towards the world of business and the country in the most efficient manner, the ICAI also decided to converge the national Accounting Standards with IFRS.

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Benefits of convergence with IFRS

Substantial benefits are expected by adoption or convergence with IFRS. Implementation of IFRS-converged Indian Accounting Standards would help in bringing excellence in financial reporting, as these Standards are based on the premise that the financial statements should be transparent and should faithfully represent the actual financial position and performance of the entity. These Standards would enable comparability of financial

information which will boost investor confidence, thereby enabling companies to raise capital at lower costs. It will provide better access to global capital markets and reduction in the cost of capital leading to overall economic growth. Since these Standards are based on fair value approach, historical costs will be replaced by fair values in several balance sheet items, which will enable the entities to know its true worth. By providing transparent and comparable financial information, reporting as per these Standards will provide an impetus to cross-border acquisitions, enable partnerships and alliances with foreign entities, and lower the cost of integration in post-acquisition periods. Accounting professionals having expertise in these Standards would also get global recognition.

Initial Initiatives

Considering the global developments and expected benefits of convergence with IFRS, the ICAI constituted Task Force in 2006 to explore approach for achieving convergence with IFRS. The Council of the ICAI in 2007 accepted recommendations of the Task Force to converge with IFRS and approach to be followed for the same. The Ministry of Corporate Affairs (MCA), Govt. of India, also supported the initiative of the ICAI to converge with IFRS in order to bring the accounting practices followed in India at par with the best international practices.

The decision to converge with IFRS and not to adopt the same signifies that while formulating I FRS-converged Indian Accounting Standards efforts will be made to keep these Standards, as far as possible, in line with the corresponding IAS/ IFRS, but keeping in view the Indian conditions and circumstances, departures will be made where considered absolutely essential. At the same time, Indian concerns will be raised before the IASB so that these are properly addressed at international level also.

In accordance with the above stated decision, the ICAI formulated IFRS-converged Indian Accounting Standards where absolutely essential departures were made and in certain Standards optional treatments prescribed under IFRS were removed keeping in view Indian environment to bring about comparability. These Standards were placed on its website by the MCA after the recommendation of the National Advisory Committee on Accounting Standards (NACAS) in February 2011. At that time, the MCA had decided to implement these Standards in phased manner from accounting periods commencing on or after 1st April 2011, but the same could not be done because of various issues, such as, non-compatible legal and regulatory requirements, tax related issues etc.

It has been recommended to the MCA that first Indian Accounting Standards consolidated financial statements may be prepared for the accounting periods beginning on or after April 1, 2016, with comparatives for the year ending 31st March 2016 or thereafter by the public interest entities. Public-interest entities for this purpose may include listed companies or the companies in the process of listing on any stock exchange in India or outside India, other large companies having net worth of ₹500 crore or more and the holding, subsidiary, joint venture or associate companies of these companies for preparing their Ind AS consolidated financial statements.

Recent initiatives: Suggested revised roadmap to MCA

The enactment of the Companies Act, 2013, has paved the way for IFRS-converged Ind AS environment as it has incorporated various provisions compatible with the requirements contained in IFRS-converged Indian Accounting Standards. Some of the examples of such requirements are inclusion of statement of changes in equity in the definition of financial statements, requirement for all companies to prepare consolidated financial statements, component approach for charge of depreciation on a fixed asset, etc.

Considering these developments in the Companies Act and recognising the need of implementation of IFRS-converged Indian Accounting Standards in India at the earliest, the MCA recently requested the ICAI to suggest revised roadmap for implementation of these Standards. In this regard, it has been noted that these Standards could not be implemented earlier due to various tax, dividend and other issues. Therefore, to overcome these issues, it has been decided by the ICAI to recommend to the MCA that Ind AS may be made applicable for preparation of Consolidated Financial Statements of public-interest entities compared to the earlier announced roadmap where Ind AS were to be made applicable to the Consolidated Financial Statements as well as

Individual Financial Statements. The major benefit of the revised approach would be that there would not be any tax, managerial and other employee compensation implications, dividend policy implications, etc., because Individual Financial Statements would continue to be prepared as per the existing notified Accounting Standards, which would be basis for all these purposes and these Standards would be upgraded over a period of time. It has been observed that most of the countries that have either adopted or converged with IFRS, have made these Standards applicable only for the purpose of preparation of Consolidated Financial Statements. Under this approach, India would be considered to be IFRS-compliant and at the same time mminimum legal and regulatory changes would be required.

It has been recommended to the MCA that public-interest entities for this purpose may include listed companies or the companies in the process of listing on any stock exchange in India or outside India, other large companies having net worth of ₹500 crore or more and the holding, subsidiary, joint venture or associate companies of these companies for preparing their Ind AS consolidated financial statements. It has been recommended that such first financial statements may be prepared for the accounting periods beginning on or after April 1, 2016, with comparatives for the year ending 31st March 2016 or thereafter. For this purpose, Ind AS effective as on 31st March 2017, would apply. The net worth for this purpose should be calculated as per the stand alone audited balance sheet of the company as at 31st March 2014 or the first balance sheet for accounting periods which end after that date.

It has also been suggested to include in the revised roadmap an option for the companies not mandatorily required to follow Ind AS to apply the Indian Accounting Standards voluntarily for their consolidated financial statements provided they prepare consolidated financial statements under the Indian Accounting Standards consistently thereafter. Once a company starts following Ind AS for consolidated financial statements, it shall be required to follow such accounting Standards for all the subsequent consolidated financial statements even if any of the eligibility criteria does not subsequently apply to it.

It has been suggested that the roadmap for banks, NBFCs and Insurance Companies shall be decided in consultation with RBI and IRDA.

Convergence: A Continuous Process

It is worthwhile to note that the convergence is a continuous process. In order to remain converged with IFRS, the Indian Accounting Standards need to be issued/revised corresponding to the IFRS being issued/revised by the IASB from time to time. Accordingly, post-February 2011, wherever any amendments have been made or new IFRS have been issued by the IASB, the ICAI has also revised the corresponding Ind AS and issued new Ind AS. With regard to certain recent amendments and new IFRS issued by the IASB, e.g., IFRS 14, Regulatory Deferral Accounts, the ICAI is in the process of revision/issuance of corresponding Ind AS. It has been endeavour of the ICAI to keep Ind AS updated in line with updations in IFRS.

Capacity Building Initiatives

In addition to formulation of Accounting Standards, the ICAI is committed to make every possible effort to ensure that these Standards are implemented in the same spirit in which they have been formulated. For this purpose, the ICAI has constituted a Committee, namely, Ind AS (IFRS) Implementation Committee, to deal with issues coming up in implementation of these Standards. The Committee provides guidance to the members and other stakeholders in the form of Educational Materials on Indian Accounting Standards. This Committee is also taking adequate steps to enhance the knowledge of the members and other stakeholders for proper implementation of IFRS-converged Indian Accounting Standards by conducting workshops, seminars and IFRS Certificate Course. Every possible effort is being made by the ICAI to address implementation issues so that risks associated with implementation of these Standards are minimised. Regulators also have a significant role to play in effectively addressing the issues involved in implementation of these Standards.

Other Initiatives

Apart from various initiatives directly related to issuance and implementation of IFRS-converged Indian Accounting Standards, the ICAI makes every possible effort to participate and interact with the IASB and other Standard–Setters to discuss Indian concerns in the context of IFRS. For this purpose, the Accounting Standards Board of the ICAI is representing India on various international fora, such as, IASB; Asian-Oceanian Standard-Setters Group

(AOSSG) - a group of the accounting standard-setters in the Asian-Oceanian region to discuss issues and share experiences on the adoption of IFRS; International Forum of Accounting Standards Setters (IFASS) - a forum to bring together policy makers, regulators and national standards-setters to share their experience, discuss IFRS related policy issues and to discuss developments in IFRS; Emerging Economies Group (EEG) - a group to focus on issues around the application and implementation of IFRS in emerging economies, etc. In this regard, recently a meeting of the IFASS formerly known as National Standards Setters (NSS) was hosted by the ICAI at New Delhi on March 6-7, 2014. Two-days 8th IFRS Regional Policy Forum ("Forum") was also hosted by the ICAI at New Delhi on 8–9 March 2014, with the theme "Financial Reporting: New Frontiers". The ICAI also conducts various outreach programmes on IFRS in collaboration with IASB from time to time. In addition to the aforementioned initiatives, in order to participate effectively in Standards formulation, incisive comments are submitted to the IASB on their various consultative documents. This helps in raising Indian concerns at the earliest, which enables the IASB to address the same in the best possible manner.

Conclusion

It may be concluded that by taking lead in all possible ways, the Institute has paved the way for implementation of IFRS-converged Indian Accounting Standards which would bring financial reporting in India at par with the international financial reporting. With this, India would also be considered an IFRS-compliant country. While India is moving towards convergence at present, in future the Indian accountancy profession is expected to play a significant role not only in Indian financial reporting system but also in international financial reporting by playing an influential role in formulation of IFRS before their finalisation. In future, India would make an increased contribution to international accounting on the basis of its rich experience, such as, its survival in the global financial crisis because of its prudence based accounting principles and would aim to emerge as a global accounting leader. ■