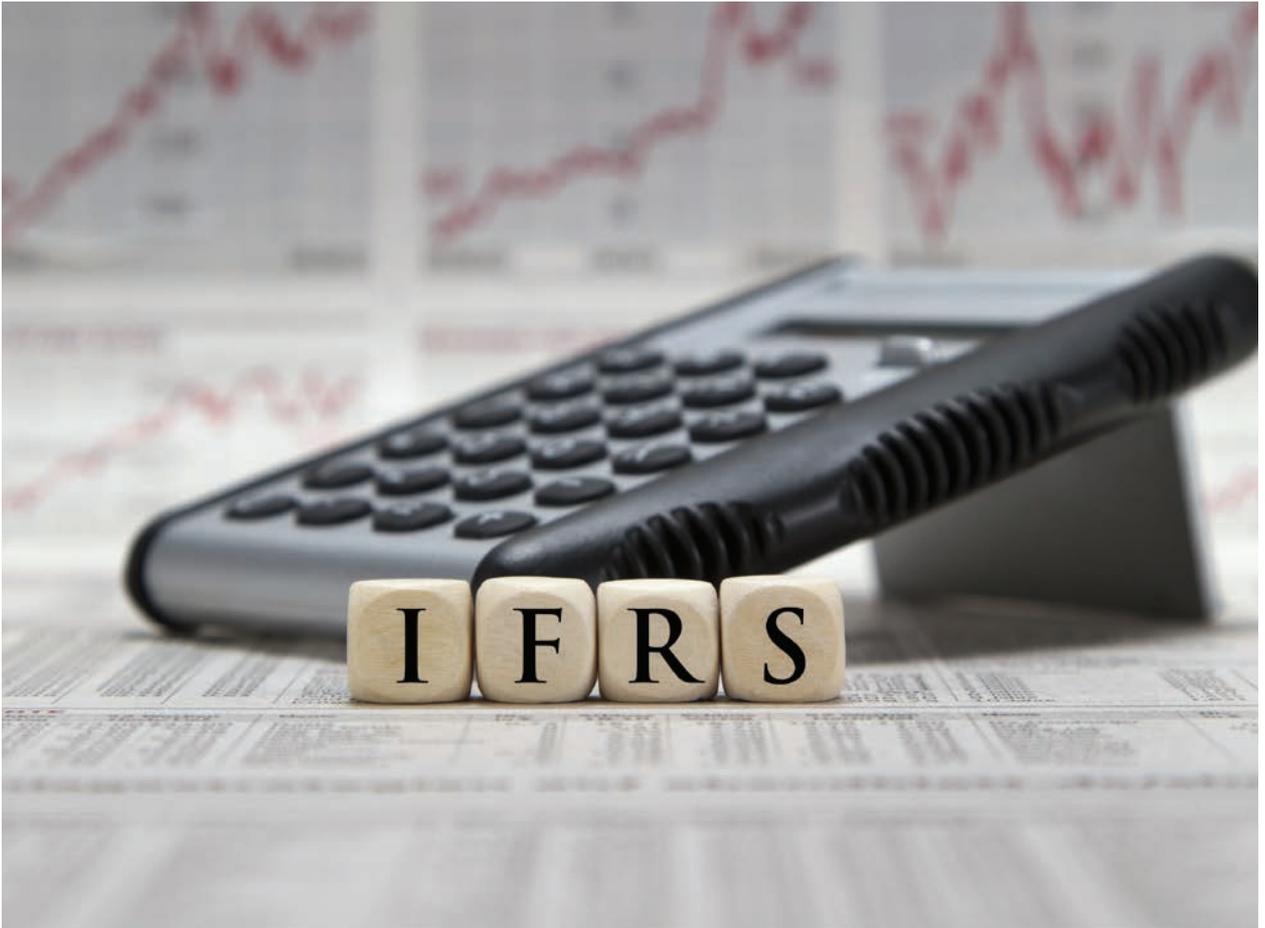


## Convergence to IFRS— Global Opportunities Beckon Indian Chartered Accountants



*Conversion to Ind AS brings a golden opportunity to comprehensively reassess financial reporting and take 'a clean sheet of paper' approach to financial policies and processes. Understanding International Financial Reporting Standards (IFRS) or Indian Accounting Standards (Ind AS) which are converged with IFRS and its implications is a business imperative for Indian companies. The changeover to IFRS is a major challenge, but it is also an opportunity for chartered accountants. Its success depends on the availability of adequate tools and resources, development of expertise by the professionals as well as a considerable investment of time and money on the part of management. This article provides an insight into the background of IFRS and the opportunities and challenges arising out of IFRS convergence for chartered accountants and the roadmap to success. Read on to know more .....*



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### What are IFRS?

Statements of International Accounting Standards issued by the Board of the International Accounting Standards Committee (IASC) (1973-2001) are designated as International Accounting Standards (IAS). However, the International Accounting

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Standards Board (IASB) announced in April 2001 that its Accounting Standards would be designated as 'International Financial Reporting Standards' (IFRS). IASB publishes its Standards in a series of pronouncements called International Financial Reporting Standards (IFRS). It also adopted the body of Standards issued by the Board of the IASC. Those pronouncements continue to be designated as IAS. Presently, there are 25 IAS and 16 IFRS, 13 IFRIC Interpretations and 5 SIC Interpretations (after considering IAS that have been withdrawn and replaced or superseded.)

## Global Acceptance of IFRS

Nearly all of the jurisdictions have made a public commitment supporting a single set of high quality global accounting standards namely IFRS. The following table analyses the use of IFRS Standards in 143 profiled jurisdictions by region of the world:

Region	Number of jurisdictions			
	Jurisdictions in the region	Jurisdictions that require IFRS Standards for all or most domestic publicly accountable entities	Jurisdictions that permit or require IFRS Standards for at least some (but not all or most) domestic publicly accountable entities	Jurisdictions that neither require nor permit IFRS Standards for any domestic publicly accountable entities
Europe	43	42	1	0
Africa	20	16	1	3
Middle East	12	11	1	0
Asia- Oceania	31	23	3	5
Americas	37	27	8	2
<b>Total</b>	<b>143</b>	<b>119</b>	<b>14</b>	<b>10</b>
<b>% of 143</b>	<b>100%</b>	<b>83%</b>	<b>10%</b>	<b>7%</b>

**IFRS for SMEs<sup>1</sup>** - 80 of the 143 jurisdictions require or permit IFRS for SMEs Standard, and it is currently under consideration in an additional 11 jurisdictions. India has not adopted IFRS for SMEs Standard.

IFRS provide the financial information for capital markets covering over half of the world's GDP. Few of the facts are worth paying attention to:

- Analysis of IFRS jurisdictions by GDP shows that capital market investors and lenders in jurisdictions with 58% of the world's GDP receive IFRS financial statements. IFRS Standards are also used in some of the remaining economies,

e.g., by nearly 500 foreign companies whose securities trade in USA.

- While the European Union is the single biggest part of the IFRS usage base, the non-EU/EEA<sup>2</sup> jurisdictions that use IFRS Standards also are a large component of the IFRS users. All EU/EEA jurisdictions require IFRS Standards for all or most domestic listed companies. The 2014 GDP of those 31 jurisdictions totals 19.0 trillion USD. The combined 2014 GDP of the non-EU/EEA jurisdictions that either require or permit IFRS Standards for all or most domestic listed companies is 26.9 trillion USD.

(Source: IASB website)

## Benefits of Adopting or Convergence to IFRS

In the present era of globalisation and liberalisation, the world has become an economic village. The globalisation of the business world and the attendant structures and the regulations, which support it,

as well as the development of e-commerce make it imperative to have a single globally accepted financial reporting system. A number of multinational companies are establishing their businesses in various countries with emerging economies and *vice versa*. The entities in emerging economies are increasingly accessing the global markets to fulfil their capital needs by getting their securities listed on the stock exchanges outside their country. Capital markets are, thus becoming integrated, consistent with this worldwide trend. Sound financial reporting structure is thus imperative for economic well-being and effective functioning of capital markets.

<sup>1</sup> Small and medium-sized entities

<sup>2</sup> European economic area

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The use of different accounting frameworks in different countries, which require inconsistent treatment and presentation of the same underlying economic transactions, creates confusion for users of financial statements. This confusion leads to inefficiency in capital markets across the world. Therefore, increasing complexity of business transactions and globalisation of capital markets call for a single set of high quality accounting standards. High standards of financial reporting underpin the trust investors place in financial and non-financial information. Hence, the case for a single set of globally accepted accounting standards.

Adoption of IFRS helps the economy at large, investors, industry as well as the accounting professionals. It benefits the economy by increasing growth of its international business. It facilitates maintenance of orderly and efficient capital markets and also helps to increase the capital formation and thereby economic growth. It encourages international investing and thereby leads to more foreign capital flows to the country.

So far as investors are concerned, they want the information that is more relevant, reliable, timely and comparable across the jurisdictions. Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards.

The industry is able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards. With the diversity in accounting standards from country to country, enterprises which operate in different countries face a multitude of accounting requirements prevailing in the countries. The burden of financial reporting is lessened with convergence of accounting standards because it simplifies the process of preparing the individual and group financial statements and thereby reduces the costs of preparing the financial statements using different sets of accounting standards.

## India's Roadmap to IFRS convergence

The Ministry of Corporate Affairs (MCA) had earlier issued the convergence roadmap from 2011 but the same was not implemented primarily due to

taxation and other reasons. Since then the Parliament has passed the new Companies Act, 2013. The new Act has introduced various new provisions, including requirement to prepare consolidated financial statements, which would facilitate implementation of Ind AS converged with IFRS.

Having regard to this and the evergrowing need to implement IFRS, on 10<sup>th</sup> July 2014, Shri Arun Jaitley, Minister of Finance, set the ball in motion with his budget speech, when he proposed:

*"There is an urgent need to converge the current Indian accounting standards with the International Financial Reporting Standards (IFRS). I propose for adoption of the new Indian Accounting Standards (Ind AS) by the Indian companies from the financial year 2015-16 voluntarily and from the financial year 2016-17 on a mandatory basis. Based on the international consensus, the regulators will separately notify the date of implementation of AS Ind for the Banks, Insurance companies etc....."*

Further to this, MCA vide notification dated 16<sup>th</sup> February 2015 has issued the Companies (Indian Accounting Standards) Rules, 2015 which lays down the roadmap for implementation of Ind AS for certain class of companies along with 39 Ind AS being part of the annexure to these Rules. Recently, on 30<sup>th</sup> March 2016, MCA has notified amendments to Ind AS including deferment of Ind AS 115, *Revenue from Contracts with Customers* and bringing out Ind AS 18, *Revenue* and Ind AS 11, *Construction Contracts* in place of Ind AS 115. Thus, at present there are 40 notified Ind AS. Various interpretations contained in SIC and IFRIC have been included as Annexure to various Ind AS.

The new Ind AS are much closer to IFRS as compared to the earlier Ind AS issued in 2011. The carve outs have been kept to bare minimum, and thus Ind AS are largely aligned with IFRS. This will be useful in a long run by ensuring global acceptability of financial statements prepared by Indian companies.

## Opportunities for Indian Chartered Accountants from Convergence with IFRS

The adoption or convergence with IFRSs benefits the accounting professionals in a way that they are able to render their services as experts in different parts of the world. It offers them more opportunities in any part of the world if uniform accounting practices prevail throughout the world.

For accounting professionals in industry as well as in practice, their ability to work in different parts of the world also increases. There are several areas which promise growth on the world stage. A working knowledge and experience in IFRS offers an international gateway for Indian accountants to take their professional abilities anywhere around the world.

There is a huge requirement of accounting professionals in India with expertise and practical experience of Ind AS and IFRS. Implementation of Ind AS in India will increase the demand of accounting professionals in the next 3-5 years. The practical knowledge of Ind AS and IFRS will open doors for such professionals across the globe as nearly 133 countries have given green signal to IFRS in their accounting boundaries. The application of these standards is very complex requiring significant amount of judgement and efforts which underlines the significance of Chartered Accountants. Also, continuous developments are taking place at IASB level in these Standards and, thus, there is a need for Chartered Accountants to keep pace with time.

Some of the specific opportunities that convergence to IFRS brings in, have been discussed below:

## Ind AS/ IFRS conversion

There is an opportunity for chartered accountants to work in the area of Ind AS/ IFRS conversion which generally includes the following steps:

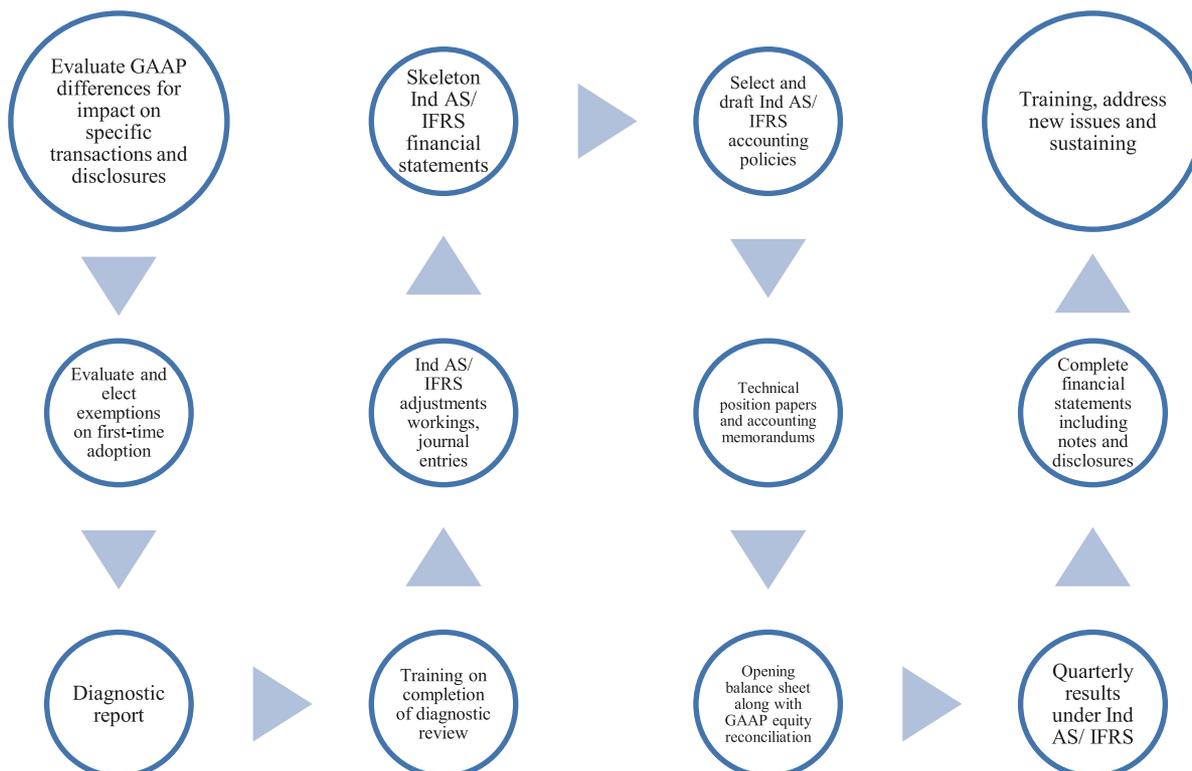
## Accounting support

Chartered Accountants can also provide various types of services in the nature of accounting support such as :

- Financial Statement close process
- Preparation of financial statements under IFRS/ Ind AS
- Consolidation of financial statements under Ind AS and IFRS
- First-time adoption of Ind AS/ IFRS
- Preparation of financial reports for regulatory purposes, e.g., preparation of Ind AS financials for the purpose of Initial Public Offering (IPO), REITs *etc.*
- Model financial statements including accounting policies, Ind AS/ IFRS checklists
- Preparation of accounting manuals under Ind AS and IFRS.

## Services as an auditor

The audit firms are also looking to hire chartered



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accountants having extensive knowledge of Ind AS and IFRS for audit of financial statements of their clients which assumes higher importance, considering the responsibilities imposed on the auditor which is conducting the audit including the risks of financial and other penalties on auditors for any non-compliance.

## Advisory services

With an in-depth knowledge of the subjects of IFRS and Ind AS, Indian Chartered Accountants can also provide advisory services in accounting, e.g., consultation on various issues in IFRS and Ind AS including interpretational and implementation issues, impact assessment on cross border mergers and acquisitions.

## Training services

Ind AS conversion process has started with intensive and ongoing Ind AS/IFRS training for accountants, auditors and other professionals. It is a major task to impart knowledge and training both to the preparers of these financial statements and to the auditing profession. This responsibility has been assigned to ICAI, which has already embarked on the task. There would be extensive education initiatives to train around two lakhs chartered accountants for this purpose. Training amounts to not just a professional opportunity, instead it also simplifies the process of compliance.

## Valuation experts

Ind AS requires recognition of certain assets and liabilities hitherto unrecognised under Indian GAAP. It also derecognises certain assets and liabilities hitherto recognised under Indian GAAP. A significant proportion of the total items in the financial statements will be measured at fair value. The fair valuation will require the services of valuation experts which is another opportunity for chartered accountants.

## Hiring IFRS specialists

Companies would consider hiring or teaming up with recognised IFRS specialists. So, there would be more demand for Chartered Accountants who are IFRS experts by large number of companies including the big conglomerates. Also, for continuous review, IFRS professionals would be required. Chartered Accountants entering the

finance industry should consider getting IFRS certification to improve career prospects.

## Taxation Services-Direct and Indirect Tax Reporting on IFRS

Switching to Ind AS and IFRS would require assessment of various tax positions which can be a great opportunity for Chartered Accountants who can provide services such as tax planning/structuring on account of change in accounting.

## Internal audit services

Chartered accountants can also provide internal audit services to test the implementation of Ind AS and IFRS in any corporate to ensure steady adoption of Ind AS and IFRS and compliance with the law. There is a need for setting up systems and processes and contributing to the establishment of a control and assurance framework for the data for the company's financial reporting under Ind AS and IFRS including regulatory reporting. Internal audit services would also include providing feedback and suggestions to the management on how to improve various accounting processes currently being followed by the company.

## IT related services

Change in accounting from Indian GAAP to Ind AS would also imply changes in the business processes which in turn will have impact on the IT systems of various corporates. Chartered Accountants can also help these corporates in defining and recommending changes in IT systems to align them with the new accounting requirement.

## Concluding Remarks

The decision to converge with IFRS will go a long way in the history of the profession. While it has its challenges, it is a golden opportunity for the profession to rise to the occasion and make a mark for itself. Finance professionals entering the field of IFRS and Ind AS will have advantage over others because there are not many accounting professionals having expert knowledge of IFRS and Ind AS. Having the right IFRS and Ind AS skill-set will elevate the status of chartered accountants in the high growing and demanding world of accounting professionals. ■