Committee on Accounting Standards, regulators, and industry associations. The Board, accordingly, decided to constitute a Task Force to prepare the Concept Paper on Convergence with IFRSs with the objective of exploring:

(i) the approach for achieving convergence with IFRSs, and

(ii) laying down a road map for achieving convergence with IFRSs with a view to make India IFRS-compliant.

The Accounting Standards Board in consultation with the then President of the ICAI, constituted the Task Force on October 15, 2006, with the following members:

1.	CA. S.C. Vasudeva	(The then Chairman, ASB, as the Convenor of the Task Force)
2.	CA. Jayant Gokhale	(The then Vice-Chairman, ASB)
3.	CA. N.P. Sarda	Past President, ICAI
4.	CA. V. Rajaraman	Past President, ICAI
5.	CA. T.V. Mohandas Pai	Member of Trustees of the International Accounting Standards Committee Foundation (IASCF)
6.	CA. Shailesh Haribhakti	Member – Standards Advisory Council of the International Accounting Standards Board
7.	CA. Uday Phadke	Nominee on the ASB from Confederation of Indian Industries (CII)
8.	CA. Dolphy D'Souza	Alternate Nominee on the ASB from Federation of Indian Chambers of Commerce & Industry (FICCI)
9.	Shri P.R. Ravi Mohan	Nominee of the Reserve Bank of India on the ASB
10.	Dr. Kamal Gupta	Former Technical Director, ICAI
11.	Prof. S. Sundararajan	Indian Institute of Management, Bangalore
12.	CA. Amal Ganguli	Senior Chartered Accountant

The technical support to the Task Force was provided by Dr. Avinash Chander, Technical Director and Secretary, Accounting Standards Board, Ms. Anuradha Jain, Deputy Director (Technical) and Ms. Poonam Popli, Management Trainee.

The Task Force held five meetings and submitted the Concept Paper to the Accounting Standards Board at its 133rd meeting held on June 12-13, 2007, at Mumbai.

The Accounting Standards Board held detailed deliberations on the same and submitted the Concept Paper to the Council for its consideration. The Council considered the Concept Paper at its 269th meeting held on July 18-20, 2007 and accepted, in principle, the recommendations contained in the Concept Paper. However, the Council decided that certain suggestions related to matters which were made by the Council members should be considered by the Accounting Standards Board. The Council authorised the Board to finalise the Concept Paper in the light of the suggestions and release the same to various stakeholders. The Board, accordingly, considered the suggestions of the Council at its 134th meeting held on July 30-31, 2007, and has finalised this Concept Paper.

The Concept Paper comprises a chapter on Introduction and Background containing the need and effectiveness for convergence with IFRSs, the objective of convergence and the meaning of convergence with IFRSs for the purposes of the Concept Paper. The second chapter evaluates the present status of Indian Accounting Standards, vis-à-vis, the International Financial Reporting Standards and identifies the major reasons for departure from the IFRSs. The third chapter lays down the strategy for convergence with IFRSs including the approach to be followed in this regard and the road map for convergence.

New Delhi **CA. Sunil H. Talati**
October 10, 2007 ***President***

EXECUTIVE SUMMARY

Introduction and Background

1. The International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) are increasingly being recognised as Global Reporting Standards. More than 100 countries such as countries of European Union, Australia, New Zealand, and Russia currently require or permit the use of IFRSs in their countries. Countries such as China and Canada have announced their intention to adopt IFRSs from 2008 and 2011 respectively. United States of America has also taken-up convergence projects with the IASB with a view to permit filing of IFRS-Compliant Financial Statements in the US Stock Exchanges without requiring the presentation of reconciliation statement. In view of the benefits of convergence with IFRSs to the Indian economy, its investors, industry and the accounting professionals (see paragraphs 1.6 to 1.9), the Concept Paper has been developed with the objective of exploring:

(a) the approach for achieving convergence with IFRSs, and

(b) laying down a roadmap for achieving convergence with the IFRSs with a view to make India IFRS-compliant

2. Presently, the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards (ASs) based on the IFRSs keeping in view the local conditions including legal and economic environment, which have recently been notified by the Central Government under the Companies Act, 1956. Accordingly, the ASs depart from the corresponding IFRSs to maintain consistency with legal, regulatory and economic environment, and keeping in view the level of preparedness of the industry and the accounting professionals. In some cases, departures are made on account of conceptual differences with the treatments prescribed in the IFRSs.

Summary of Convergence Strategy

3. Keeping in view the complex nature of IFRSs and the extent of differences between the existing ASs and the corresponding IFRSs and the reasons therefor, the ICAI is of the view that IFRSs should be adopted for the public interest entities such as listed entities, banks and insurance entities and large-sized entities from the accounting periods beginning on or after 1st April, 2011. The countries which have adopted IFRSs have done so for similar types of entities (see paragraphs 3.7 to 3.11).

4. The criteria for public interest entities should broadly be the same as that for the existing Level I entities criteria prescribed by ICAI except that keeping in view the complex nature of

IFRSs, the limits of turnover be increased from Rs. 50 crore to Rs. 100 crore and that of borrowings from Rs. 10 crore to Rs. 25 crore (see paragraphs 3.3 and 3.4).

5. In respect of entities other than public interest entities (termed as 'small and medium-sized entities' (SMEs)), a separate standard for SMEs may be formulated based on the IFRS for Small and Medium-sized Enterprises when finally issued by the IASB, after modifications, if necessary. Compliance with this IFRS for SMEs is not necessary to make India IFRS-compliant (see paragraphs 3.5 and 3.6).

6. The format of IFRSs to be adopted for public interest entities should be the same as that of IFRSs, including their numbers. The numbers of the existing Accounting Standards may be given in brackets for the purpose of easier identification. Wherever required, a section may be added at the end of the adopted IFRS indicating the Indian legal and regulatory position (see paragraph 3.12). The IFRSs when adopted will also take into account the International Financial Reporting Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. Only in rare circumstances of public interest a carve out from an IFRS may be made.

7. With a view to achieve smooth transition to IFRSs from 1st April, 2011, all stakeholders in the standards-setting process, namely, the ICAI, the Government and the regulators (see paragraph 3.21), reporting entities (see paragraph 3.22) and the industry-associations (see paragraph 3.23) should ensure creating necessary infrastructure and environment.

8. The ICAI should continue to issue Accounting Standards in conformity with IFRSs which have, at present, reached advanced stage of formulation. In respect of those existing Accounting Standards which need revision due to revision of the corresponding IFRSs by IASB, and do not have any conceptual differences with IFRSs or any legal or regulatory implications, should also be revised on priority basis. In this regard, the ASB may consider in-depth its work plan as to which of these accounting standards are capable of being revised/issued keeping in view various factors such as extent of changes required. The ASB should resolve conceptual differences with the IASB as soon as possible. The ICAI should also play the role of educator/trainer to prepare its members for adoption of IFRSs from 1st April, 2011 by revising the curriculum of Chartered Accountancy Course, holding continuing professional education workshops, and preparation of educational material. The ICAI should initiate dialogue with the Government and regulators to bring about changes in laws and regulations before 1st April, 2011 (see paragraphs 3.14 to 3.20).

9. In the Post-Convergence scenario, the ASB of ICAI will have to play role (i) in formulation of IFRS-equivalent Indian Accounting Standards and (ii) influencing IFRSs before finalisation. Insofar as the role in formulation of IFRS-equivalent Accounting Standards is concerned, the ASB should undertake one or more of the following processes in adopting IFRSs:

(a) determine whether each IFRS meets specified criteria set out in local legislation/regulations;

(b) endorse the IFRSs in the form of IFRS-equivalent Indian Accounting Standards for the local regulatory framework with changes such as removing optional treatments and adding disclosure requirements, where appropriate, as this does not involve non-compliance with IFRS. In rare circumstances, it may be necessary carving out of the IFRS requirements keeping in view the existing local conditions in the public interest;

(c) present the Indian Accounting Standards so developed for approval of NACAS for the purpose of Government notification.

Insofar as the role of ASB in influencing IFRSs before their finalisation in the post-convergence scenario is concerned, the ASB will have to play a greater role in the IASB by sending comments on various discussion papers, exposure drafts of IFRSs, involve industry and other stakeholders in the formulation of comments, identify experts who can be selected on the IASB, send ASB staff on secondment basis or otherwise to participate in the IASB projects, consider issues for interpretation of IFRSs and refer the same to IFRIC and in case the IFRIC does not take any project on its agenda, provide guidance to its members and others (see paragraph 3.24).

1

INTRODUCTION AND BACKGROUND

1.1 A financial reporting system supported by strong governance, high quality standards, and firm regulatory framework is the key to economic development. Indeed, sound financial reporting standards underline the trust that investors place in financial reporting information and thus play an important role in contributing to the economic development of a country. The Institute of Chartered Accountants of India (ICAI) as the accounting standards-formulating body in the country, has always made efforts to formulate high quality Accounting Standards and has been successful in doing so. Indian Accounting Standards have withstood the test of time. As the world continues to globalise, discussion on convergence of national accounting standards with International Financial Reporting Standards (IFRSs)[1] has increased significantly.

1.2 The forces of globalisation prompt more and more countries to open their doors to foreign investment and as businesses expand across borders the need arises to recognise the benefits of having commonly accepted and understood financial reporting standards. In this scenario of globalisation, India cannot insulate itself from the developments taking place worldwide. In India, so far as the ICAI and the Governmental authorities such as the National Advisory Committee on Accounting Standards established under the Companies Act, 1956, and various regulators such as Securities and Exchange Board of India and Reserve Bank of India are concerned, the aim has always been to comply with the IFRSs to the extent possible with the objective to formulate sound financial reporting standards. The ICAI, being a member of the International Federation of Accountants (IFAC), considers the IFRSs and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India. The *Preface to the Statements of Accounting Standards*, issued by the ICAI, categorically recognises the same. Although, the focus has always been on developing high quality standards, resulting in transparent and comparable financial statements, deviations from IFRSs were made where it was considered that these were not consistent with the laws and business environment prevailing within the country. Now, as the world globalises, it has become imperative for India also to make a formal strategy for convergence with IFRSs with the objective to *harmonise with globally accepted accounting standards*.

[1] The term International Financial Reporting Standards is used in this Concept Paper to encompass International Accounting Standards (IASs) promulgated by the International Accounting Standards Committee (IASC) – the predecessor body of the International Accounting Standards Board (IASB) which issues IFRSs.

Need for Convergence with IFRSs

1.3 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 multi-national 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 fulfill their capital needs by getting their securities listed on the stock exchanges outside their country. Capital markets are, thus, becoming integrated consistent with this World-wide trend. Appendix I contains a list of stock exchanges in different countries indicating the extent of foreign entities listed on these stock exchanges. More and more Indian companies are also being listed on overseas stock exchanges. Sound financial reporting structure is imperative for economic well-being and effective functioning of capital markets.

1.4 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. Thus, the case for a single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with IFRSs. Amongst others, countries of the European Union, Australia, New Zealand and Russia have already adopted IFRSs for listed enterprises. China has decided to adopt IFRS from 2008 and Canada from 2011. Insofar as US is concerned, Financial Accounting Standards Board (FASB) of USA and IASB are also working towards convergence of the US GAAPs and the IFRSs. The Securities & Exchange Commission (SEC) has mooted a proposal to permit filing of IFRS-compliant financial statements without requiring presentation of a reconciliation statement between US GAAPs and IFRS in near future. Appendix II contains list of countries which require or permit the use of IFRSs for various types of the entities such as listed entities, banks etc.

Benefits of achieving convergence with IFRSs

1.5 There are many beneficiaries of convergence with IFRSs such as the economy, investors, industry and accounting professionals.

The Economy

1.6 As the markets expand globally the need for convergence increases. The convergence 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.

Investors

1.7 A strong case for convergence can be made from the viewpoint of the investors who wish to invest outside their own country. Investors 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. For better understanding of financial statements, global investors have to incur more cost in terms of the time and efforts to convert the financial statements so that they can confidently compare opportunities. Investors' confidence would be strong if accounting standards used are globally accepted. Convergence with IFRSs contributes to investors' understanding and confidence in high quality financial statements.

The industry

1.8 A major force in the movement towards convergence has been the interest of the industry. 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.

The accounting professionals

1.9 Convergence with IFRSs also benefits the accounting professionals in a way that they are able to sell their services as experts in different parts of the world. The thrust of the movement towards convergence has come mainly from accountants in public practice. It offers them more opportunities in any part of the world if same accounting practices prevail throughout the world. They are able to quote IFRSs to clients to give them backing for recommending certain ways of reporting. Also, for accounting professionals in industry as well as in practice, their mobility to work in different parts of the world increases.

The Objective of the Concept Paper

1.10 The prerequisite for achieving convergence successfully is to lay down the convergence strategy including the roadmap for achieving convergence in a systematic and consistent way keeping in view the legal, economic and other pecularities of the country. This Concept Paper is the first step in this direction in India with the objective of exploring:

(i) the approach for achieving convergence with IFRSs, and

(ii) laying down a road map for achieving convergence with IFRSs, with a view to make India IFRS-compliant.

Meaning of 'Convergence' with IFRSs

1.11 Before discussing the contours of the convergence strategy with a view to meet the above mentioned objectives, the word 'convergence' needs to be clearly understood.

1.12 In general terms, 'convergence' means to achieve harmony with IFRSs; in precise terms convergence can be considered *"to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRSs"*. In this context, attention is drawn to paragraph 14 of International Accounting Standard (IAS) 1, *Presentation of Financial Statements*, which states that financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs. It does not imply that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRSs only when IFRSs are adopted word by word. The IASB accepts in its *'Statement of Best Practice: Working Relationships between the IASB and other Accounting Standards-Setters'* that "adding disclosure requirements or removing optional treatments does not create non-compliance with IFRSs. Indeed, the IASB aims to remove optional treatments from IFRSs." This makes it clear that if a country wants to add a disclosure that is considered necessary in the local environment, or removes an optional treatment, this will not amount to non-compliance with IFRSs. Thus, for the purpose of this Concept Paper, 'convergence with IFRSs' means adoption of IFRSs with the aforesaid exceptions, where necessary.

1.13 For a country to be IFRS-compliant, it is not necessary that IFRSs are applied to all entities of different sizes and of different public interests. Even the IASB recognises that IFRSs are suitable for publicly accountable entities. The IASB has, therefore, recently issued an Exposure Draft of an IFRS for Small and Medium-sized Entities (SMEs).

2

PRESENT STATUS OF INDIAN ACCOUNTING STANDARDS

2.1 The Council of the Institute of Chartered Accountants of India constituted the Accounting Standards Board on 21st April, 1977, to formulate Accounting Standards applicable to Indian enterprises. Initially, the Accounting Standards were recommendatory in nature. After gaining sufficient experience, the Council of the Institute gradually started making the Accounting Standards mandatory for its members, i.e., requiring the members to report on whether an enterprise subject to audit had followed a mandatory Accounting Standard[2]. The legal recognition to the Accounting Standards was accorded for the companies in the Companies Act, 1956, by introduction of section 211(3C) through the Companies (Amendment) Act, 1999, whereby it is required that the companies shall follow the Accounting Standards notified by the Central Government on a recommendation made by the National Advisory Committee on Accounting Standards (NACAS) constituted under section 210A of the said Act. The proviso to section 211(3C) provides that until the Accounting Standards are notified by the Central Government the Accounting Standards specified by the Institute of Chartered Accountants of India shall be followed by the companies. The Government of India, Ministry of Company Affairs (now Ministry of Corporate Affairs), issued Notification dated December 7, 2006, prescribing Accounting Standards 1 to 7 and 9 to 29 as recommended by the Institute of Chartered Accountants of India, which have come into effect in respect of the accounting periods commencing on or after the aforesaid date with the publication of these Accounting Standards in the Official Gazette. It may be mentioned that the Accounting Standards notified by the Government are virtually identical with the Accounting Standards, read with the Accounting Standards Interpretations, issued by the Institute of Chartered Accountants of India.

2.2 The Reserve Bank of India (RBI), being the regulator of banks in India, requires all the banks, through its circulars/guidelines, to follow the Accounting Standards issued by the Institute of Chartered Accountants of India. Further, the Securities and Exchange Board of India (SEBI), through the Listing Agreement with stock exchanges, requires all listed entities to comply with the Accounting Standards issued by the Institute. Also, the Insurance

[2] Initially, Accounting Standard (AS) 4, *Contingencies and Events Occurring After the Balance Sheet Date*, and Accounting Standard (AS) 5, *Net Profit or Loss for the Period, Prior Periods Items and Changes in Accounting Policies*, were made mandatory in respect of accounting periods commencing on or after 1.1.1987. Five more Accounting Standards, namely, AS 1, AS 7, AS 8, AS 9, and AS 10 were made mandatory from 1st April, 1991. Thereafter, Accounting Standards were generally made mandatory on the dates indicated in the standards themselves upon their issuance.

Regulatory and Development Authority (IRDA), which regulates the financial reporting practices of insurance companies under the Insurance Regulatory and Development Authority Act, 1999, through IRDA (Preparation of Financial Statements and Auditor's Report of the Insurance Companies) Regulations, 2002, requires compliance with the Accounting Standards issued by the Institute of Chartered Accountants of India for preparing and presenting their financial statements by insurance companies.

2.3 Presently, the Accounting Standards Board (ASB) of the ICAI endeavors to formulate Indian Accounting Standards (ASs) on the basis of IFRSs as it has been categorically recognised in the *Preface to the Statements of Accounting Standards*, issued by the ICAI, that "The ICAI, being a full-fledged member of the International Federation of Accountants (IFAC), is expected, inter alia, to actively promote the International Accounting Standards Board's (IASB) pronouncements in the country with a view to facilitate global harmonisation of accounting standards. Accordingly, while formulating the Accounting Standards, the ASB will give due consideration to International Accounting Standards (IASs) issued by the International Accounting Standards Committee (predecessor body to IASB) or International Financial Reporting Standards (IFRSs) issued by the IASB, as the case may be, and try to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India." Accordingly, the Accounting Standards issued by the ICAI are based on the IFRSs. However, where departure from IFRS is warranted keeping in view the Indian conditions, the Indian Accounting Standards have been modified to that extent. The major differences between the two are indicated in the Appendix to the Accounting Standard itself, in respect of the recently issued/revised Accounting Standards. Further, the endeavour of the ICAI is not only to bridge the gap between Indian Accounting Standards and IFRSs by issuance of new Accounting Standards but also to ensure that the existing Indian Accounting Standards are in line with the changes in international thinking on various accounting issues. In this regard, the ICAI makes a conscious effort to bring the Indian Accounting Standards at par with the IFRSs, including the Interpretations issued by International Financial Reporting Interpretations Committee (IFRIC), by revising the existing Accounting Standards. Indeed, of late, in respect of certain recently issued/revised Indian Accounting Standards, no material difference exists between the Indian Accounting Standards and the IFRSs, for example, Accounting Standard (AS) 7, *Construction Contracts.*

2.4 Apart from the ICAI ensuring compliance with the IFRSs to the extent possible, the National Committee on Accounting Standards (NACAS) constituted by the Central Government for recommending accounting standards to the Government, while reviewing the Accounting Standards issued by the ICAI, considers the deviations in the Indian Accounting Standards, if any, from the IFRSs and recommends to the ICAI to revise the Accounting Standards wherever it considers that the deviations are not appropriate.

Reasons for departures from IFRSs

2.5 As has already been mentioned, the aim has always been to follow the IFRSs, to the extent possible, while formulating the Accounting Standards. However, deviations from IFRSs have been made due to various unavoidable reasons as discussed hereinafter.

To maintain consistency with the Legal and Regulatory Requirements

2.6 In some cases, the legal and regulatory requirements in India are at variance from the IFRSs and, therefore, in such cases, Indian Accounting Standards diverge from IFRSs because otherwise various legal problems may arise. For example, keeping in view the requirements of the law governing the companies in India, Accounting Standard (AS) 21, *Consolidated Financial Statements,* defines 'control' as ownership of more than one-half of the voting power of an enterprise or control over the composition of the governing body of an enterprise. This definition of 'control' is based on the definitions of 'holding company' and 'subsidiary company' as per the Companies Act, 1956. However, IAS 27, *Consolidated and Separate Financial Statements,* defines 'control' as "the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities". Similarly, Accounting Standard (AS) 25, *Interim Financial Reporting,* does not require disclosure and presentation of interim financial statements because, in India, at present, Clause 41 of the Listing Agreement prescribes a format of presentation of quarterly/half-yearly financial results and also requires various disclosures to be made therein. IAS 34, *Interim Financial Reporting,* prescribes various minimum disclosure and presentation requirements for interim financial statements.

2.7 It may, however, be mentioned that, of late, a practice has been started to include accounting treatments in accordance with IFRSs even though they are not consistent with the legal requirements with an understanding that until the law is amended, the relevant legal requirements would prevail. For instance, the Exposure Draft of the proposed Accounting Standard (AS) 31, *Financial Instruments: Presentation,* issued by the ICAI, proposes the same presentation requirements as those prescribed in IAS 32. However, it recognises that until the relevant laws are amended, the latter would prevail.

Economic environment

2.8 The economic environment of a country plays an important role in prescribing the accounting requirements applicable to various enterprises. For instance, while various IFRSs have been based on the fair value approach, there has been reluctance in India to adopt this approach in view of the fact that various markets in the country have not been considered to possess necessary depth and breadth providing reliable fair values on measurement of various assets and liabilities. For example, Accounting Standard (AS) 13, *Accounting for Investments*, requires current investments to be valued at the lower of cost and

fair value whereas the corresponding IAS 39, *Financial Instruments: Recognition and Measurement,* requires measurement of similar investments at fair value. It may, however, be mentioned that the ICAI, with changing economic environment in the country, is now proposing measurement of financial assets of trading nature at fair value in the Exposure Draft corresponding to IAS 39.

Level of preparedness

2.9 In a few stray cases, the Indian Accounting standards deviate from IFRSs because adoption of IFRSs verbatim may cause hardship to the industry and, to avoid the same, modifications are made in Accounting Standards until the industry is prepared for the IFRSs. For example, AS 15 (revised), *Employee Benefits,* permits deferment of expenditure incurred on account of termination of services arising in a voluntary retirement scheme for a transitional period, in view of the fact that the Indian industry was undergoing a structural change at the time when the standard was introduced, whereas the corresponding IAS 19, *Employee Benefits,* does not allow the deferment of such expenditure even as a transitional measure.

Conceptual differences

2.10 Apart from the above differences, there are a few conceptual differences between the Indian Accounting Standards and the IFRSs. For example, IAS 37 deals with 'constructive obligation' in the context of creation of a provision. The effect of recognising provision on the basis of constructive obligation is that, in some cases, provision will be required to be recognised at an early stage. For instance, in case of a restructuring, a constructive obligation arises when an enterprise has a detailed formal plan for the restructuring and the enterprise has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. It is felt that merely on the basis of a detailed formal plan and announcement thereof, it would not be appropriate to recognise a provision since a liability cannot be considered to be crystallized at this stage. Further, the judgment whether the management has raised valid expectations in those affected may be a matter of considerable argument. In view of this, the corresponding Indian accounting standard, viz., AS 29, does not specifically deal with 'constructive obligation'. AS 29, however, requires a provision to be created in respect of obligations arising from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. In such cases, general criteria for recognition of provision are required to be applied.

2.11 Appendix III to this Concept Paper contains major departures as classified on the basis of the above reasons, in the Indian Accounting Standards from the corresponding IFRSs.

3

STRATEGY FOR CONVERGENCE WITH IFRSS

3.1 Formulation of convergence strategy to achieve the objective specified in Chapter 1 requires cognisance of reasons for departure of Indian Accounting Standards from the corresponding IFRSs as discussed in the previous chapter as well as the complexity of the recognition and measurement requirements and the extent of disclosures required in the IFRSs with a view to enforce these on various types of entities, viz., public interest entities and other than public interest entities (hereinafter referred to as 'small and medium-sized entities').

Convergence with IFRSs – Public Interest Entities

3.2 Various IFRSs were examined from the point of view of their complexities in terms of recognition and measurement requirements and the extent of disclosures required therein to consider their application to various types of entities. It is noted that those countries which have already adopted IFRSs, i.e., countries which are fully IFRS-compliant, have done so primarily for public interest entities including listed and large-sized entities. It is also noted that the International Accounting Standards Board also considers that the IFRSs are applicable to public interest entities in view of the fact that it has recently issued an Exposure Draft of a proposed IFRS for Small and Medium-sized Entities[3]. The ICAI, therefore, is of the view that India should also become IFRS compliant only for public interest entities.

3.3 With a view to determine which entities should be considered as public interest entities for the purpose of application of IFRSs, the criteria for Level I enterprises as laid down by the Institute of Chartered Accountants of India[4] and the definition of 'small and medium-sized company' as per Clause 2(f) of the Companies (Accounting Standards) Rules, 2006, as notified by the Ministry of Company Affairs (now Ministry of Corporate Affairs) in the Official Gazette dated December 7, 2006, were considered. The ICAI is of the view that in view of the complexity of recognition and measurement principles and the extent of disclosures required in various IFRSs, and the fact that about four years have elapsed since the ICAI laid down the criteria for Level I enterprises, as far as the size is concerned, it needs a revision. Accordingly, the ICAI is of the view that a public interest entity should be an entity:

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[3] IASB has left the criteria for deciding small and medium-sized entities to the individual jurisdictions.

[4] Announcement on 'Applicability of Accounting Standards (with reference to small and medium-sized enterprises)' published in the Chartered Accountant (November 2003).

(i) whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India; or

(ii) which is a bank (including a cooperative bank), financial institution, a mutual fund, or an insurance entity; or

(iii) whose turnover (excluding other income) **exceeds rupees one hundred crore** in the immediately preceding accounting year; or

(iv) which has public deposits and/or borrowings **from banks and financial institutions in excess of rupees twenty five crore** at any time during the immediately preceding accounting year; or

(v) which is a holding or a subsidiary of an entity which is covered in (i) to (iv) above.

3.4 It was considered whether it would be appropriate not to apply full IFRSs to listed entities which do not fulfill the minimum turnover and/or borrowings criteria recommended in paragraphs 3.3 (iii) and/or 3.3 (iv) in view of the fact that other entities which do not fall in these criteria would not be required to follow IFRSs. The ICAI is of the view that once an entity gets listed on a stock exchange it assumes the character of a public interest entity and, therefore, it would not be appropriate to exempt such entities from the application of IFRSs. Similarly, a bank, a financial institution, a mutual fund, an insurance entity and holding or subsidiary of a public interest entity also assumes the character of a public interest entity.

Accounting Standards for Small and Medium-sized Entities

3.5 Once the IFRSs are applied to entities identified in paragraph 3.3 above, an issue arises as to which Accounting Standards should be applicable to entities which are not covered by paragraph 3.3 (i.e., 'Small and Medium-sized Entities' (SMEs)). The following three alternatives were considered:

(i) The IFRSs should be modified to provide exemptions/relaxations as has been done in the existing Accounting Standards issued by the ICAI/notified by the Government of India;

(ii) The existing Accounting Standards with exemptions/relaxations as at present, should continue to apply;

(iii) Apply the IFRS for SMEs (the Exposure Draft of which has been issued recently) with or without modifications to suit Indian conditions.

3.6 The ICAI is of the view that since the IASB itself recognises that the IFRSs are too onerous for small and medium-sized entities, it would not be appropriate to apply the IFRSs with exemptions/relaxations to SMEs. The ICAI is also of the view that to continue to apply

the existing Accounting Standards in India to SMEs with the existing exemptions/relaxations would not be appropriate as it would mean that the ICAI/the Government would have to keep on modifying the existing Accounting Standards as soon as a change is made in the corresponding IFRSs after considering the appropriateness thereof in the context of Indian SME conditions. The ICAI is, therefore, of the view that it may be appropriate to have a separate standard for SMEs. It was noted that the proposed IFRS for SMEs was still at the Exposure Draft stage and it may undergo changes when finally issued. Accordingly, whether the IFRS for SMEs should be adopted in toto or with modifications, should be examined when the said IFRS is finally issued. The ICAI is of the view that a separate standard for SMEs would be more useful from the following perspectives also:

(i) The small and medium-sized entities would not have to consider all the IFRSs which are too voluminous; and

(ii) it would ensure convergence, to the extent possible, with the proposed IFRS for Small and Medium-sized Entities being issued by IASB, even for this class of entities.

In this context, it is noted that in order to be an IFRS-compliant country, it is not necessary to adopt the IFRS for Small and Medium-sized Entities to be issued by IASB.

Whether the IFRSs should be adopted for Public Interest Entities stage-wise or all at once from a specified future date

3.7 The ICAI examined the IFRSs and the existing Accounting Standards with a view to determine the extent to which they differ from the IFRSs and the reasons therefor to identify which IFRSs can be adopted in near future, which IFRSs can be adopted after resolving conceptual differences with the IASB, which IFRSs can be adopted after the industry and the profession is ready in terms of the technical skills required, and which IFRSs can be adopted after the relevant laws and regulations are amended. On the basis of this examination, the ICAI has classified various IFRSs into the following five categories:

Category I - IFRSs which do not involve any legal or regulatory issues nor have any issues with regard to their suitability in the existing economic environment, preparedness of industry and any conceptual differences from the Indian Accounting Standards. This category has further been classified into two parts as follows:

Category I A - IFRSs which can be adopted immediately as these do not have any differences with the corresponding Indian Accounting Standards. The following IFRSs have been identified in this category:

- IAS 11, Construction Contracts
- IAS 23, Borrowing Costs

Category I B - IFRSs which can be adopted in near future as there are certain minor differences with the corresponding Indian Accounting Standards. The following IFRSs have been identified in this category:

- IAS 2 Inventories
- IAS 7,Cash Flow Statements
- IAS 20, Accounting for Government Grants and Disclosure of Government Assistance
- IAS 33, Earnings Per Share
- IAS 36, Impairment of Assets
- IAS 38, Intangible Assets

Category II - IFRSs which may require some time to reach a level of technical preparedness by the industry and professionals keeping in view the existing economic environment and other factors. This category also includes those IFRSs corresponding to which Indian Accounting Standards are under preparation/revision. The following IFRSs have been identified in this category:

- IAS 18, Revenue
- IAS 21,The Effects of Changes in Foreign Exchange Rates
- IAS 26, Accounting and Reporting by Retirement Benefit Plans
- IAS 40, Investment Property (Corresponding Indian Accounting Standard is under preparation)
- IFRS 2, Share-based Payment (Corresponding Indian Accounting Standard is under preparation)
- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (Corresponding Indian Accounting Standard is under preparation)

Category III - IFRSs which have conceptual differences with the corresponding Indian Accounting Standards. This category has further been divided into two parts as follows:

Category III A - IFRSs having conceptual differences with the corresponding Indian Accounting Standards that should be taken up with the IASB. The following IFRSs have been identified in this Category:

- IAS 17,Leases

- IAS 19, Employee Benefits
- IAS 27,Consolidated and Separate Financial Statements
- IAS 28, Investments in Associates
- IAS 31, Interests in Joint Ventures
- IAS 37, Provisions, Contingent Liabilities and Contingent Assets

Category III B - IFRSs having conceptual differences with the corresponding Indian Accounting Standards that need to be examined to determine whether these should be taken up with the IASB or should be removed by the ICAI itself. The following IFRSs have been identified in this Category:

- IAS 12, Income Taxes
- IAS 24, Related Party Disclosures
- IAS 41, Agriculture (Corresponding Indian Accounting Standard is under preparation)
- IFRS 3, Business Combinations
- IFRS 6, Exploration for and Evaluation of Mineral Resources
- IFRS 8, Operating Segments

Category IV - IFRSs, the adoption of which would require changes in laws/regulations because compliance with such IFRSs is not possible until the regulations/laws are amended. The following IFRSs have been identified in this Category:

- IAS 1, Presentation of Financial Statements
- IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10, Events After the Balance Sheet Date
- IAS 16, Property, Plant and Equipment
- IAS 32, Financial Instruments: Presentation (Exposure Draft of the Corresponding Indian Accounting Standard has been issued)
- IAS 34, Interim Financial Reporting
- IAS 39, Financial Instruments: Recognition and Measurement (Exposure Draft of the Corresponding Indian Accounting Standard has been issued)
- IFRS 1, First-time Adoption of International Financial Reporting Standards
- IFRS 4, Insurance Contracts
- IFRS 7, Financial Instruments: Disclosures

<u>Category V</u> - IFRSs corresponding to which no Indian Accounting Standard is required for the time being. However, the relevant IFRSs, when adopted upon full convergence, can be used as the "fallback" option where needed.

- IAS 29, Financial Reporting in Hyper-inflationary Economies

Convergence with IFRS – Stage-wise Approach

3.8 The ICAI examined whether convergence with IFRSs can be achieved stagewise as below:

Stage I: *Convergence with IFRSs falling in Category I immediately*

Stage II: *Convergence with IFRSs classified in Category II and Category III after a certain period of time, say, 2 years after various stakeholders have achieved the level of technical preparedness and after conceptual differences are resolved with the IASB.*

Stage III: *Convergence with IFRSs classified in Category IV only after necessary amendments are made in the relevant laws and regulations.*

Stage IV: *Convergence with IFRSs classified in Category V by way of adoption on full convergence.*

3.9 The ICAI considered in-depth the stage-wise adoption approach and its views thereon are as below:

(i) If some IFRSs are adopted in the initial stages and the other IFRSs are adopted later, this may result in mis-match between the requirements of the adopted IFRSs in the first stage and the accounting standards issued by ICAI/notified, corresponding to those IFRSs which are not adopted. This is because many accounting standards are inter-related.

(ii) Another problem can be that IFRSs adopted in one stage may not be possible to be implemented fully until the adoption of the IFRSs to be adopted at the later stage in view of their inter-relationship.

(iii) Even, at present, it is found that when one IFRS is adopted, it results in a number of changes in the corresponding Indian Accounting Standards. For example, the issuance of ED of AS 30, '*Financial Instruments: Recognition and Measurement*', corresponding to IAS 39, '*Financial Instruments: Recognition & Measurement*', has resulted in proposed limited revisions to many other accounting standards such as AS 2, AS 11, AS 13, AS 21, AS 23, AS 27, AS 28 and AS 29. Such an approach is fraught with the danger of missing out certain minute aspects in other standards which may also require revision.

(iv) Further changes in IFRSs will also make the process more complex as with every revision in IFRS, revisions may be required in the existing Accounting Standards apart from the changes in the adopted IFRSs. Though IASB has decided not to issue any revised IFRS or new IFRS effective till January 1, 2009, but after that date this problem will become acute.

Convergence with IFRS – All-at-once Approach

3.10 In view of the above difficulties, the ICAI is of the view that it would be more appropriate to adopt all IFRSs from a specified future date as has been done in many other countries. After considering the current economic environment, expected time to reach the satisfactory level of technical preparedness and the expected time to resolve the conceptual differences with the IASB, **the ICAI has decided that IFRSs should be adopted for public interest entities from the accounting periods commencing on or after 1st April, 2011.** This will give enough time to all the participants in the financial reporting process to help in building the environment supporting the adoption of IFRSs. Insofar as the legal and regulatory aspects are concerned, the ICAI is of the view that, on adoption of those IFRSs, having certain requirements in conflict with the laws/regulations, the latter will prevail. The ICAI is further of the view that this approach is appropriate because to wait for full convergence until the relevant laws/regulations are amended would not be practicable as such amendments may not take place for many years.

3.11 The ICAI also examined whether an entity should have a choice to become fully IFRS-compliant before 1st April, 2011. The ICAI is of the view that an early adoption of IFRSs should be encouraged. However, such an adoption should be for all IFRSs and that it cannot be on selective basis.

Format of converged Accounting Standards

3.12 The ICAI considered whether the existing Accounting Standards should be revised to make them fully compliant with IFRSs by the specified date or on the specified date the IFRSs themselves should be adopted. In either case, Indian-specific regulatory/legal aspects may be included in a separate section, where appropriate. The ICAI is of the view that it would be more cumbersome to follow the first approach, i.e., revising the Accounting Standards. Therefore, the second approach should be, i.e., IFRSs, including the IFRS numbers, should be adopted from the specified date of 1st April, 2011. The IFRSs should be issued as Indian ASs, which would be considered IFRS-equivalent. In order to facilitate reference to the existing Indian Accounting Standards, along with the IFRS number, in the brackets, the existing Accounting Standard number may also be given.

Role of various stakeholders to ensure convergence with IFRSs from the specified date, i.e., accounting periods commencing on or after 1st April, 2011

3.13 The following sections deal with the role of various stakeholders in the standard-setting process to ensure smooth transition to the IFRSs from 1st April, 2011, in respect of the listed and other public interest entities.

Role of the ASB of the ICAI

3.14 The ICAI considered whether it should altogether stop formulating Accounting Standards hereinafter in view of the fact that from 1st April, 2011, the IFRSs existing on that date would come into force for public interest entities. For SMEs, IFRS for SMEs may similarly become applicable, subject to examination as stated in paragraph 3.6. In this context, it is noted that, at present, the ICAI is in the process of formulating certain new accounting standards corresponding to the IFRSs such as Accounting Standard (AS) 30, *'Financial Instruments: Recognition and Measurement'*, and Accounting Standard (AS) 31, *'Financial Instruments: Presentation'*, and that Exposure Drafts in respect thereof have already been issued. It was also noted that certain existing Accounting Standards such as Accounting Standard (AS) 10, *'Accounting for Fixed Assets'*, is being revised and has reached advanced stage of issuance. The ICAI feels that to stop work on such Accounting Standards would deprive the country of converging with IFRSs before the specified date of 1st April, 2011. The ICAI is, therefore, of the view that it should continue to issue Accounting Standards in conformity with the corresponding IFRSs which have, at present, reached advanced stage of formulation even if they fall within Category IV. This would also make the transition to IFRSs from 1st April, 2011 smoother.

3.15 The ASB may consider revising Accounting Standards corresponding to IFRSs indicated in Category IB and Category II on priority basis. For this purpose, ASB may consider issuing a composite exposure draft of modifications in the Accounting Standards corresponding to the IFRSs listed in Category IB and issue exposure drafts of Accounting Standards corresponding to IFRSs falling in Category II so that by the time the convergence date arrives, in respect of these standards the country is already in convergence with IFRSs. While this is a broad suggestion, the ASB may consider in-depth its work plan as to which of these accounting standards are capable of being revised/issued keeping in view various factors such as extent of changes required. Another advantage of this process could be that certain International stock exchanges, say, London Stock Exchange, may decide to allow listing on their stock exchanges without requiring preparation of reconciliation statement even prior to 1st April, 2011. For instance, the London Stock Exchange may allow Indian companies to get listed without reconciliation statement from 1st April, 2009 in case the convergence in respect of Categories IB and II and the new accounting standards which are in the process of formulation are issued by that time.

3.16 The ASB of ICAI should take up the conceptual differences with the IASB in respect of IFRSs falling in Category III and it should resolve these differences as soon as possible by either convincing the IASB to modify IFRSs or to satisfy itself that the requirements in the concerned IFRSs are appropriate even in the Indian conditions.

3.17 In respect of IFRSs falling in Category IV, i.e., IFRSs the adoption of which would require changes in laws/regulations, the ICAI should initiate a dialogue with the relevant departments of the Government or the authorities set up by the Government such as the National Advisory Committee on Accounting Standards which formulate laws and with the relevant regulatory authorities to convince them that either the legal provisions/regulations related to recognition, measurement and disclosure requirements in the financial statements should be withdrawn by 1st April, 2011, or the same should be appropriately amended to ensure convergence with IFRSs.

3.18 The IASB has declared a stable platform for IFRSs upto January 1, 2009, i.e., the IASB will not make any IFRS effective before that date, which is issued prior to that date. Thus, after 1st January, 2009, the IASB may issue new IFRSs or revise the existing ones on frequent basis. The ASB of the ICAI should play a more effective role by sending comments on the discussion papers/Exposure Drafts of the proposed IFRSs. The ASB should also participate in the Round-tables organised by the IASB on various drafts of proposed new IFRSs/revised IFRSs. In other words, the ASB should play a greater role in influencing the future IFRSs. The ASB should also play a similar role in respect of the drafts of the Interpretations issued by the International Financial Reporting Committee (IFRIC). In this context, the section related to the 'Role of ASB of ICAI in Post-convergence Scenario' (see paragraph 3.24) may also be referred to.

3.19 The ASB can also play a greater role in influencing future IFRSs in the following ways:

(i) By identifying experts on IFRSs in India, who can be appointed on the IASB through the selection process followed by the IASB so that the Indian concerns are expressed at the Board level.

(ii) By nominating ASB staff on the IASB projects, on secondment basis or otherwise. The ICAI notes that IASB welcomes such participation as is evident from the fact that the staff of certain national standard-setters is presently involved in various IASB projects. Also, IASB's *Statement of Best Practices: Working Relationships between the IASB and other Standard-Setters* encourages the national standard-setters to do so (see also paragraph 3. 24(8)).

Role of ICAI as an educator/trainer

3.20 With a view to prepare its existing and prospective members for the impending adoption of the IFRSs from 1st April, 2011, the ICAI should formulate strategies with regard to the following:

(i) To revise the syllabi of the pre-qualification Chartered Accountancy Course to include IFRSs as a part of its curriculum;

(ii) The Continuing Professional Education (CPE) Committee and the Committee for Members in Industry should hold intensive workshops on IFRSs to train the members in practice as well as in industry. In order to encourage members to participate in the IFRS-specific workshops, the ICAI may consider laying down minimum CPE hours requirements in this regard, e.g., the ICAI may make it mandatory for its members to attend a minimum number, say, 50 CPE hours of workshops on IFRSs every year till 1st April, 2011 including those members who are in industry;

(iii) Preparation of educational material to guide its members on various intricacies involved in the implementation of IFRSs. The educational material may focus on those areas which are new compared to the existing Accounting Standards.

Role of the Government and Regulators

3.21 The ICAI considers that the Government and the Regulators should play the following role in making the country IFRS-compliant:

(i) The Government and the Regulators should establish legal and regulatory environments that provide for compliance with all the IFRSs.

(ii) The Government should frame/ revise laws in consultation with NACAS to reflect the IFRSs. Similarly, various Regulators should frame/revise regulations in consultation with ICAI. This should be considered as a high priority.

Role of Reporting Entities

3.22 The reporting entities to which IFRSs are recommended to be applied should prepare themselves in the following ways:

(i) All the affected entities should design and implement an IFRS transition programme and allocate the necessary resources. This includes obtaining the commitment from the top down, i.e., from those charged with governance to those responsible for financial reporting by individual business units. Also, they should consider the interdependencies between the transition to IFRSs and

other financial reporting projects, if any, such as compliance with laws and regulations.

(ii) The entities should prepare to implement IFRSs by identifying differences and addressing required financial reporting system changes.

(iii) The entities should design and implement plans to change management reporting system used to monitor the performance of the business from the previously applied Accounting Standards to IFRSs.

(iv) The entities should also provide IFRS training to staff at all levels affected by the transition to IFRSs.

(v) The entities should actively contribute to the international standard-setting process, in particular, to identify practical implementation issues.

(vi) The entities should consider at an early stage changes proposed by the Exposure Drafts of IFRSs with a view to gauge the potential impact thereof on their financial statements so that they are able to provide informed comments on the drafts to the IASB/ICAI.

Role of Industry Associations

3.23 Industry associations such as Federation of Indian Chambers of Commerce and Industry (FICCI), Associated Chambers of Commerce (Assocham) and Confederation of Indian Industries (CII) can also play an important role in preparing their constituents for the adoption of the IFRSs in the following ways:

(i) Holding round-tables on the Exposure Drafts of the IFRSs so that the views of the Association can be sent to the IASB/ICAI.

(ii) Conducting seminars/workshops on IFRSs for the industry participants to provide them appropriate training.

(iii) Provide industry-specific forums to their constituents to discuss the industry-specific issues in implementation of IFRSs.

Role of ASB in the post-convergence scenario

3.24 With regard to the role of ASB of the ICAI in the post-convergence scenario, the ICAI decided to generally endorse the role of the national standard-setters as envisaged in the *Statement of Best Practices: Working Relationships between the IASB and other Accounting Standard-setters,* issued by the IASB, as follows:

Role in formulation of IFRS- equivalent Indian Accounting Standards

1. ASB should undertake one or more of the following processes in adopting IFRSs:

   (a) determine whether each IFRS meets specified criteria set out in local legislation/regulations;

   (b) endorse the IFRS in the form of IFRS-equivalent Indian Accounting Standards for the local regulatory framework, with changes, if necessary, as mentioned at 2 and 3 below;

   (c) present the standards for approval of NACAS for the purpose of Government notification .

Therefore, adopting IFRSs would be an ongoing process.

2. In general, working with the Government and regulators for adoption/ implementation of IFRSs, including deciding in rare circumstances whether any carving out of the IFRS requirements in the existing local conditions is warranted in the public interest.

3. In some cases, as at present, the ASB may continue the policy of removing optional treatments and adding disclosure requirements to IFRSs when it believes that doing so provides more comparable and useful information in the country.

   When ASB makes any change to an IFRS, for example, adding a disclosure that is considered necessary in the local environment, or removing an optional treatment, this should be made clear so that users of the IFRS are aware of the changes.

   In some cases, certain changes in terminology in IFRS may be required keeping in view legal requirements, e.g., replacing the term 'true & fair' for 'present fairly', in IAS 1, '*Presentation of Financial Statements*'. Such changes do not lead to non-convergence with IFRS.

4. Inevitably, questions of interpretation will arise when IFRSs are applied. Accordingly, ASB should be familiar with the implementation of IFRSs in the country. This familiarisation process may involve, or depend upon, close liaison with local capital market and industry regulators. If ASB believes that an issue requires interpretation of IFRSs, it should request the IFRIC to address the issue. If IFRIC includes the matter for interpretation on its Agenda, interpretation/guidance on the matter should not be issued. If IFRIC does not include the matter on its Agenda, it issues reasons therefor including what a particular requirement of an IFRS means. This itself can provide guidance to various stakeholders.

The IFRIC or IASB staff may decide that an amendment to an IFRS is the more appropriate course to follow. As part of this process, other accounting standard-setters that face a common issue could work together to formulate a possible approach to the issue for resolution by the IFRIC or the IASB.

5. IFRSs are intended to apply worldwide regardless of local legislative and regulatory environments. However, some issues may relate to particular legislative or other local requirements. In these cases, ASB may decide to issue guidance. Care needs to be exercised, however, to ensure that the issues are not more widely relevant. In considering such issues, ASB should liaise with the IFRIC, and if it believes it is necessary to issue any guidance, it should avoid incompatibility with IFRSs.

Role of ASB in influencing IFRSs before their finalization

1. ASB should have a role in communicating IASB activities and outputs to the industry and other stakeholders through educational and promotional activities, including publishing or distributing IASB consultative documents in the jurisdictions, and in both providing the IASB with feedback on these activities and outputs themselves and encouraging them to provide feedback to the IASB.
2. ASB should encourage various stakeholders to comment on IASB consultative documents direct to the IASB as well as to the ASB.
3. Forums of communicating views other than comment letters are increasingly important in gathering views, including forums on specific issues. ASB should use these forums as a mechanism for encouraging the stakeholders to participate in the IASB's standard-setting process.
4. ASB can assist the IASB in identifying constituents who can be involved in round-table discussions and other forums and the issues of particular relevance to the stakeholders.
5. Without limiting the direct communication of ideas to the IASB, ASB has a role in communicating the views and ideas of the stakeholders to the IASB through the consultation process—providing a forum for views. Other organisations, such as representative bodies with an interest in financial reporting, may also contribute to this process. ASB should make its own submissions to the IASB on consultative documents and should convey its views to the IASB rather than provide merely a synthesis of the views expressed by the stakeholders.
6. ASB should make the IASB aware of any major conceptual differences of opinion it may have with a project as early as possible in the life of a project. This would require ASB to monitor closely the development of the project.
7. The IASB's work programme is a subject on which it would be particularly helpful for ASB to channel its views and those of the stakeholders in a

constructive manner. Since the IASB is unable to respond to every interested party's request to deal with a topic, ASB should seek the views of the stakeholders on work programme priorities and collect and summarise them for consideration by the IASB.

8. Direct involvement of ASB in the IASB's projects would help to ensure that a wide range of views and ideas are considered in the early stages of the development of a project.

   The IASB may provide opportunities to ASB to be directly involved with IASB projects in the following ways:

   (a) involvement in a 'research project' alone, or, in partnership with a team of other standard-setters (either as a leader of the team or as team member), under the guidance of IASB staff and selected Board advisers.

   (b) involvement of the ASB staff in a 'project team' on an active IASB project under the direction of the IASB directors.

9. ASB may conduct research or develop thinking on a topic that has not been identified by the IASB as a current priority, and then present the results of that work for consideration by the IASB and/or other national accounting standard-setters. For there to be an expectation that those materials would be considered there would need to be some advance agreement both that the topic is worthy of consideration and that the IASB and/or other standard-setters have a common interest in the topic.

10. The IASB would welcome offers of staff assistance from the ASB. To be effective, from both the IASB's perspective and that of the ASB, this involvement needs to be undertaken with a clear understanding of the staff member's role and responsibilities.

11. The IASB establishes working groups for some projects, and invites constituents to nominate candidates for membership of these groups. The working groups are a source of expert advice and ideas for the staff in progressing a particular project. ASB may be able to assist in the process of making nominations to, and in facilitating the operations of, working groups by identifying and encouraging suitable individuals to nominate themselves and, if appointed, to liaise actively with those individuals and assist them when needed.

12. The views of ASB can be a valuable source of independent thought in the development of IASB documents. ASB should provide comments to the IASB on consultative documents such as Exposure Drafts and Discussion Papers. If time does not permit ASB-level input, comment from staff of the ASB can be provided. If ASB is unable to comment on each consultative document it should focus on those projects that are of particular importance to the country, or those on which the ASB believes it can best contribute. It may also be helpful for ASB

to comment on other IASB documents, such as issues papers and draft Discussion Papers when it believes that the IASB would benefit from their input at an early stage.

Expectations from the IASB

3.25 To ensure smooth convergence with IFRSs, upto 2011 and thereafter also, IASB is also expected to play an important role as follows:

(a) Provide guidance on issues emerging on adoption of IFRSs on timely basis at least upto 2011.

(b) Address concerns about the complexity and structure of the international standards.

(c) Write standards in simple English that is understandable, clear and capable of translation and consistent application.

(d) In developing the IFRS and setting effective dates, be cognisant of the fact that the final standards are required to be translated in India for the purpose of Government Notification.

(e) In considering changes to the IFRS, be cognisant of the cost vs. the benefits of the proposed changes.

(f) Establish a process, or enhance the existing process to respond in a timely manner to requests for interpretations.

(g) Consider the development of implementation guidance.

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