

Convergence of Indian Accounting Standards with IFRS

4.1 Introduction

4.1.1 Recognition for convergence in India

The Ministry of Corporate Affairs (MCA), reported on 13 May 2008, that the initiative for harmonization of the Indian Accounting Standards with International Financial Reporting Standards (IFRS) taken up in 2001 and implemented through notification of accounting standards in 2006, would be continued by the Government with the intention of achieving convergence with IFRS by 2011. Also, there was commitment in G-20 summit held (September 2009) in Pittsburgh that G-20 Countries (of which 'India' is a member country) would converge national Accounting Standards with the IFRS by June 2011.

4.1.2 Effect of the convergence on financial statements

Convergence means to be as close to IFRS as local conditions permits. In rare cases, keeping in view the Indian conditions, some changes may be made which may be different from IFRS.

The convergence will lead to a material change in the reporting of revenues/expenses, recognizing/ de-recognizing assets and liabilities and improved disclosure requirements across sectors. IFRS based on the fair value approach will present a more contemporary position of financial statements unlike the current practice, which is based on the conservative approach.

4.1.3 Benefits of Convergence

Reliable, consistent and uniform financial reporting is an important part of good corporate governance practice worldwide to enhance credibility of businesses in the eyes of investors to take informed investment decisions.

Since IFRS has been adopted by more than 100 countries (including countries of European Union, Australia, New Zealand, Russia), its adoption by corporate India will enhance comparison of financial statements, domestically and globally. Better understanding and comparability of financial statements will attract more global investments to India Inc.

4.1.4 Rationale behind 'convergence' instead of 'adoption' with IFRS'

IFRSs issued by the IASB are not country specific. They are meant to be applied across the globe. However, each country has its own peculiarities and hence, adoption of IFRSs as they are, without any modification, may not be practicable and departures may have to be made primarily on account of the legal, regulatory and economic environment prevailing in the country. Internationally, for example in Europe, the endorsement of IFRS is done by European Union (EU) after examining them in detail and considering the changes wherever required.

4.2 Convergence process in India

4.2.1 Administrative Ministry

In India, the process of convergence with IFRS has been primarily carried out by MCA through wide ranging consultative and participative exercise with all the concerned stakeholders.

4.2.2 Road-Map

A Core Group was constituted in July, 2009 under the Chairmanship of Secretary, MCA to prepare a road-map for convergence with representatives from Regulatory Bodies (Securities and Exchange Board of India, Reserve Bank of India, Insurance Regulatory & Development Authority, The Pension Fund Regulatory and Development Authority, Comptroller & Auditor General of India), Ministry of Finance (Central Board of Direct Taxes), The Institute of Chartered Accountants of India (ICAI), Chambers & Industry bodies and experts. The Core Group was supported by two sub-groups. The Core Group which met last on 3 March 2010, had communicated the changes required to be carried out by various regulators as well as the road-map for implementation of the Converged Accounting Standards (Ind-AS) in phases. As per the road-map announced by MCA in March 2010, the Ind-AS were to be applied to specified class of companies in phases beginning with the financial year 1 April 2011. The Ind-AS will be applicable for both stand-alone and consolidated financial statements.

4.2.3 Consulting and participative process

On the advice of the Prime Minister's Office, the MCA invited suggestions from companies on the implementation of the road-map drawn for the convergence process by hosting the notice on its website on 10 December 2010. Suggestions were received from fifty one stakeholders. Two interactive meetings were held in January and February 2011, under the chairmanship of Secretary MCA, wherein Chief Financial Officers of the companies covered in Phase-I were personally heard. Their queries were clarified by the Ministry officials as well as technical experts from ICAI.

4.2.4 Notification of Ind-AS

As many as 35 redrafted converged Accounting Standards (termed as 'Ind-AS') have since been hosted by the MCA on its website in February 2011, after due vetting by the Legislative Department of the Ministry of Law and Justice. However, the date of implementation of the Ind-AS would be notified after resolving various issues including the tax issues. The Ind-AS have gone through the process of preparation of draft by the ICAI, approval by National Advisory Committee on Accounting Standards (NACAS), examination by a Technical Committee in MCA, approval of the Minister, MCA and vetting by Legislative Department of Ministry of Law and Justice.

4.2.5 International co-operation

MCA has entered into a Memorandum of Understanding (MOU) with Japan on 26 July 2010 with the aim to have effective sharing of knowledge in the context of convergence with IFRS. As per the MOU there was considered need for setting up a Joint Working Group comprising members of Core Group, India and IFRS Council, Japan and also forming sub-groups for joint training programs, and for exploring possibility of jointly representing common issues to IASB.

4.3 Status of implementation of Ind-AS

4.3.1 Ind-AS not implemented as per the road-map

Audit observed that MCA could not notify the date of implementation of the Ind-AS' as per the notified road-map, primarily in the absence of clarity on the tax impact of the adoption of Ind-AS. Several other regulatory issues are also to be addressed before implementation, such as amendments to the Companies Act, determination of the approach to be followed by regulated entities such as banks, insurance and power distribution companies, besides the amendments in regulations to be carried out by SEBI in regard to quarterly reporting by listed companies.

4.3.2 Resolving tax issues

Audit further observed that MCA appreciated the fact that it would be unfair to implement Ind-AS till the tax issues are comprehensively addressed. Accordingly, it took up the matter with the Department of Revenue, Ministry of Finance. In December 2010, Central Board of Direct Taxes (CBDT) formed a Committee of the tax officers and the professionals to address the tax issues arising out of the convergence to IFRS. The Committee was specifically to study, with reference to the Ind-AS,

- the harmonization of Tax Accounting Standards with the Ind-AS,
- method of determination of tax base (book profit) for purpose of minimum alternate tax (MAT) and
- amendments required in the Income Tax Act.

In October 2011, based on the recommendations of the Committee, the Ministry of Finance issued a discussion paper on the Tax Accounting Standards. If the recommendation on the Tax Accounting Standards is accepted and incorporated in the Income Tax Act, tax payable (other than MAT) would be computed based the Tax Accounting Standards, irrespective of the accounting standards followed in the preparation of financial statements. The issue regarding MAT, one of the most important tax issues, needs to be addressed in public domain with due clarity.

4.4 Other challenges in implementation of Ind-AS

Audit reviewed the concerns of the various stakeholders and observed that the following issues need to be addressed while implementing the Ind-AS:

4.4.1 Modifications in IFRS

Many of the IFRS are undergoing revisions and a few new IFRS are under drafting stage, particularly those related to revenue recognition, tax treatment, financial, insurance sectors and rate regulated industries. Some of these changes are expected to become effective in the near future.

4.4.2 Deviations from IFRS

There are certain deviations from IFRS in the Ind-AS notified. These deviations could be a matter of concern among international investors/other stakeholders, who might not be satisfied with the deviations. The impact of the deviations needs to be assessed to ensure full benefits of convergence. If the objective is not being achieved, it would be useful to re-evaluate the approach adopted for the convergence.

4.4.3 Preparatory efforts amid uncertainty

Adequate infrastructure, in terms of professional expertise and IT applications, is necessary for smooth transition towards the convergence. At present, the date of implementation is not clear. The stakeholders might be delaying their preparatory efforts till the road-map is revised and notified with due certainty.

4.4.4 Indian Companies listed on European Stock Exchanges

The delay in implementation date may have impact on Indian Companies listed on European Stock Exchanges. It is understood that these companies were exempted from furnishing IFRS compliant financial statements on the consideration that India would fully converge with IFRS from 2011. It is possible that the exemption may not be extended beyond 2011 if uncertainty continues with regard to the implementation date for Ind-AS. Withdrawal of the exemption would result in the concerned companies preparing two sets of financial statements.

4.5 Way forward

4.5.1 Prepare and notify revised Road-map

The present situation needs to be reviewed and a revised map prepared with due certainty, so that preparatory efforts could be started by the stakeholders/regulators.

The road-map may have to factor the emerging changes in the tax laws and other regulations. Since it is more than eight months since the Ind-AS have been notified, MCA may arrange to rework the convergence time table.

4.5.2 Review of the concerns of stakeholders

A holistic view on the concerns of all domestic/international stakeholders needs to be taken to ensure that the benefits expected from convergence are fully obtained.