

Opportunities and Challenges in adopting IFRS in India.

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Introduction

IFRS stands for "International Financial Reporting Standards" and includes International Accounting Standards (IASs) until they are replaced by any IFRS and interpretations originated by the IFRIC or its predecessor, the former Standing Interpretations Committee (SIC). These are standards for reporting financial results and are applicable to general purpose financial statements and other financial reporting of all profit-oriented entities. Profit-oriented entities includes those engaged in commercial, industrial, financial and similar activities, whether organized in corporate or in other forms also includes mutual insurance companies, other mutual co-operative entities, etc.

Upon its inception the IASB adopted the body of International Accounting Standards (IASs) issued by its predecessor and as such IFRS includes IAS until they are replaced by any IFRSs. One of the basic features of IFRS is that it is a principle-based standard rather than rule based.

IFRS in India

At its 269 meeting the Council of ICAI has decided that public interest entities such as listed companies, banks, insurance companies and large-sized organizations to converge with IFRS for accounting period commencing on or after 1 April, 2011.

For Small and Medium size Entities i.e. other than public interest entities, ICAI had proposed that a separate standard may be formulated based on the IFRS for Small and Medium-sized Enterprises issued by the IASB after modifications, if necessary. Even MCA had expressed the view that India should converge to IFRS w.e.f 1 April, 2011.

With an objective to ensure smooth transition to IFRS from 1 April, 2011, ICAI is taking up the matter of convergence with IFRS with National Advisory Committee on Accounting Standards (NACAS) established by the Ministry of Corporate Affairs, Government of India and other regulators including Reserve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA) and the Securities and Exchange Board of India (SEBI). Core Group for IFRS convergence formed by MCA has recommended convergence to IFRS as under:

-Phase I (opening balance sheet as at 1 April, 2011):-

1. Companies which are part of BSE - Sensex 30 and NSE

- Nifty 50;

2. Companies whose shares or other securities are listed outside India;

3. Companies whether listed or not, having net worth of more than Rs. 1,000 crores.

- Phase II (opening balance sheet as at 1 April, 2013):-

Companies not covered in Phase 1 and having net worth exceeding Rs. 500 crores.

- Phase III (opening balance sheet as at 1 April, 2014):-

Listed companies not covered in earlier phases.

(If the financial year of a company commences at a date other than 1 April, then it shall prepare its opening balance sheet at the commencement of immediately following financial year.)- Separate Road Map would be prepared for banking and insurance companies.

The issue of convergence with IFRS has gained significant momentum in India recently.

Benefits of adopting IFRS

* It would benefit the economy by increasing growth of international business. It would encourage international investing and thereby lead to more foreign capital inflows into the country.

* Investors want the information that is more relevant, reliable, timely and comparable across the jurisdictions. IFRS would enhance the comparability between financial statements of various companies across the globe.

* Better understanding of financial statements would benefit investors who wish to invest outside their own country. The industry would be 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.* It would provide professional opportunities to serve international clients.

* It would increase their mobility to work in different parts of the world either in industry or practice.

* It would reduce different accounting requirements prevailing in various countries there by enabling enterprises to reduce cost of compliances.

* Adoption of IFRS in India would increase the credibility of companies and thereby enjoy higher credit ratings.

* Adoption of IFRS will enhance the Corporate Governance Reporting and thereby attracting foreign investors.

* Unlike globalisation adoption of IFRS is a step towards Internationalisation of accounting and reporting standards

IFRS Challenges

* Increase in cost initially due to dual reporting requirement which entity might have to meet till full convergence is achieved.

* Unlike several other countries, the accounting framework in India is deeply affected by laws and regulations. Changes may be required to various regulatory requirements under The Companies Act, 1956, Income Tax Act, 1961, SEBI, RBI, etc. so that IFRS financial statements are accepted generally.

* If IFRS has to be uniformly understood and consistently applied, all stakeholders, employees, auditors, regulators, tax authorities, etc would need to be trained.

* Entity would need to incur additional cost for modifying their IT systems and procedures to enable it to collate data necessary for meeting the new disclosures and reporting requirements.

* Differences between Indian GAAP and IFRS may impact business decision / financial performance of an entity.

* Limited pool of trained resource and persons having expert knowledge on IFRSs.

* Communicating the importance and relevance of IFRS in global markets.

Strategies for Adoption of IFRS in India:

1) Corporate Institutions like CII (Confederation of Indian Industries), FICCI, ICAI etc should initiate centralize training and awareness program which would ensure uniform, effective and efficient (cost effective) awareness across industry.

2) Corporate institutions should represent corporate and industry to liaise with Financial and ERP software

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providers like SAP, Oracle systems, Tally to provide upgrades and newer versions to existing Software packages at reasonable rates (The Software providers will have to work on codes only once and deploy the software across industry in one go).

3) Corporate institutions as mentions above should take a lead to integrate E-Corporate Governance in the IFRS modules ensuring, integrated transaction, accounting and reporting system.

4) Financial Institutions and Banking sector, although have different legacy systems, should migrate to more standardised and common system to ensure smooth business transaction across the Globe.

5) Universities and educational system should align the syllabus to the new accounting standard, as soon as possible to avoid obsolescence and duplicity.

Conclusion:

IFRS has its own advantages and offers a chance for India to align and integrate with common International Accounting standard which will save the cost which has to be incurred by MNCs and internationally listed corporate for maintaining dual accounting and reporting system. It will also provide opportunity for small and mid size industry and institutions to transact with counterparts across the Globe and harvest efficiencies and broader exposure.

But to adopt IFRS, especially by small and Midsized Industry would be a challenge in terms of scarcity of expertise and prohibitive cost to change/ upgrade the IT systems.

A collective, collaborative and centralized effort for smooth, efficient and effective transition and implementation of IFRS across Government bodies, financial institutions, banking sector, and Corporates, Industry and Educational system is required.

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