

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), which was 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. A revised road map was under consideration of MCA.

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 (Reserve Bank of India, CAG, Securities and Exchange Board of India, Insurance Regulatory & Development Authority, Pension Fund Regulatory and Development Authority), Ministry of Finance, 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 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 was to be applicable for both stand-alone and consolidated financial statements.

4.2.3 Notification of Ind-AS

As many as 35 redrafted converged Accounting Standards (termed as 'Ind-AS') were 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 was yet to be notified. The Ind-AS had 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.

4.2.4 Changes in Corporate Laws

In February 2011, MCA notified the revised Schedule VI to the Companies Act 1956 which contained modifications that might be required to implement the Ind-AS e.g. grouping of assets and liabilities has been made as 'Current' and 'Non-Current'.

A new Companies Act 2013 has been enacted in August 2013. The Act specifies that the financial statements shall comply with accounting standards notified by Central Government and shall be in form or forms as may be provided for class or classes of companies. This would facilitate implementation of the Ind-AS in phases.

Fair valuation of assets and liabilities being the most important aspect of IFRS, the new Companies Act contains relevant section for the valuation by registered valuers, as also the responsibilities of valuers.

4.2.5 International co-operation

MCA 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, both countries agreed for mutual co-operation mainly through holding of the annual India-Japan IFRS Dialogue for three years from 2010. There were also set up five Joint Working Groups under the MOU: regulators, accounting standard setters, institute of chartered/certified accountants, industry representatives and stock exchanges of both countries to share their knowledge and experience in order to address issues regarding IFRS.

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 Ind-AS as per its notified road-map, primarily on grounds of lack of consensus on its implementation. Several other regulatory issues might also have to be addressed, such as the approach to be followed by entities such as banks and insurance.

4.3.2 Modifications in IFRS

Many of the IFRS were undergoing revisions and some new IFRS were under process. This would require revisions/amendments in the notified Ind-AS, as also the notification of new Ind-AS.

4.3.3 Deviations from IFRS

There were certain deviations from IFRS in the Ind-AS notified so far. 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.

4.3.4 Fair market valuation

IFRS uses fair value as a measurement base for valuing most of the items of financial statements. As such, there is need to ensure that there exists a reliable mechanism and infrastructure for determining and verifying the fair value of various assets and liabilities with due accuracy. The convergence can, otherwise, bring subjectivity and volatility to the financial statements.

4.3.5 Preparatory efforts amid uncertainty

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