ABSTRACT

The growing demand for transparency and comparability of financial information across the globe is an important reason for adopting a single set of globally acceptable accounting and financial reporting standards. As the world globalizes, it has become imperative for India also to make a formal strategy for convergence with IFRS with the objective of harmonizing with globally accepted accounting standards. While India Inc. eagerly waiting for guidelines on the IFRS, experts say that a lot remains to be done before it can be introduced. With the involvement of various regulators such as MCA, RBI, IRDA, Tax authorities and SEBI Draft Schedule VI and Accounting Standard 1 (Exposure Draft) consistent with IFRS, India will stick to IFRS convergence timeline. There is a need for clarity about the time by which companies need to convert their accounts as per IFRS; if there are changes to be made to regulatory frameworks, then by when that should happen; changes in accounting standards should be on a fast-track basis; how indirect and direct taxes would be levied. Conversion to IFRS is a tedious task involving significant time, cost and efforts. But the need of the hour is to strategize the convergence process and enable Indian companies to source equity globally and to outbound investments easy.

INTRODUCTION:

Users of financial statements, especially shareholders demand transparency in financial reporting and disclosures. However, the willingness and need for better disclosure practices have intensified only in recent times. On account of globalization Indian Companies are raising funds from offshore capital markets as well as investing abroad. This has made Indian companies which desire raising funds, to follow the Generally Accepted Accounting Principles (GAAP) of the investing or borrowing country. The different disclosure requirements for listing purposes have hindered the free flow of capital. This has also created difficulties in comparison of financial statements across the globe. A movement was

Initiated by an International body called International Organization of Securities Commissions (IOSCO), to harmonize diverse disclosure practices followed in different countries. Many capital market regulators across the globe have now agreed to accept International Financial Reporting Standards (IFRS) compliant financial statements as admissible for raising capital. This would ease free flow of capital and reduce cost of raising capital from abroad. IFRS has been created by the International Accounting Standard Board (IASB), an independent, privately funded accounting standards body based in London.
BENEFITS OF IFRS

Once companies start using IFRS, their credibility would go up, investors will feel secured and raising capital will become easier. Following are some of the important benefits of adopting IFRS:

- Transparency in reporting
- Improved access to international capital markets
- Lower cost of capital
- Benchmarking with global peers
- Enhanced brand value
- Avoidance of multiple reporting
- Reflecting true value of acquisitions

Convergence with IFRS

The growing demand for transparency and comparability of financial information across the globe is an important reason for adopting a single set of globally acceptable accounting and financial reporting standards. Long considered a distant goal, IFRS has been adopted (or in the process of adoption) as the basis of accounting and financial reporting in many countries. The Securities Commission Exchange (SEC) announcements in the year 2007 served as a wake up call for US Companies. Convergence with IFRS has gained a momentum in recent years all over the World. More than 110 countries including European Union, Australia, China, New Zealand, and Russia currently require or permit the use of IFRS. Apart from India, countries like Japan, Sri Lanka, Canada and Korea have also committed to adopt IFRS from 2011.

In the globalization scenario, India cannot insulate itself from the developments taking place worldwide. In India, so far as the Institute of Chartered Accountants of India (ICAI) is concerned, its aim has always been to comply with the IFRS 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 IFRS and tries to integrate with them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India. The paradigm shift in the economic environment in India during last few years has led to increasing attention being devoted to accounting standards as a means towards ensuring potent and transparent financial reporting by any corporate. ICAI, being a premier accounting body in the country, took upon itself the leadership role by establishing Accounting Standards Board (ASB), more than twenty five years ago, to fall in line with the international and national expectations. Indian Accounting Standards have withstood the test of time. As the world continues to globalize, discussion on convergence of national accounting standards with IFRS has increased significantly.

As the world globalizes, it has become imperative for India also to make a formal strategy to converge with IFRS with an objective of harmonizing with globally accepted accounting standards. IFRS Task Force has been formulated by the Council of ICAI. Recommendation of the IFRS Task Force submitted to the Council. Full adoption of IFRS is required from accounting period commencing on or after 1 April 2011 in case of listed entities and public interest entities such as banks, insurance companies and large sized entities. At present, the ASB of ICAI formulates the Accounting Standards based on IFRS. However, these standards remain sensitive to local conditions, including the legal and economic environment. Accordingly, Accounting Standards issued by ICAI depart from corresponding IFRS in order to ensure consistency with legal, regulatory and economic environment of India. As of now, India is looking to converge with IFRS from April 1, 2011, and not adopt it fully.

While India Inc. is eagerly waiting for the guidelines on the IFRS. Experts say that a lot remains to be done before IFRS can be introduced. With the involvement of various regulators such as MCA, RBI, IRDA, Tax authorities and SEBI Draft Schedule VI
and Accounting Standard 1 (Exposure Draft) consistent with IFRS India will stick to IFRS convergence timeline. There could be some delay in the implementation of IFRS whereby regulators could ask companies to implement the new accounting standards in different branches depending on the company size and other factors.

**Challenges**

The IFRS is a novel way of looking at accounting. Be it the preparation of accounts or the way they are presented, IFRS challenges the status quo without providing definite answers. There are over 10,000 Indian companies, including banks and financial institutions, which will adopt IFRS by 2011. Meeting the deadlines for convergence with IFRS is a big challenge for India. Transition to IFRS (as shown in Exhibit 1) needs attention of the following dates:

- **First year of reporting as per IFRS:** Accounting period commencing on or after April 1, 2011
- **Date of adoption:** The first day of the first reporting financial year (April 1, 2011)
- **Date of reporting:** The last day of the first reporting financial year (March 31, 2012)
- **Comparative year:** Immediately preceding previous year (April 1, 2010 - March 31, 2011)
- **Date of transition:** The beginning of the earliest period for which an entity presents full comparative information (April 1, 2010)

Indian companies are lagging behind due to the lack of expertise and knowledge in this field. Indian Accounting Standards differ from IFRS in six-seven significant ways, especially in some areas related to mergers and acquisitions, financial instruments such as derivatives, environmental issues such as carbon credits, and rules related to depreciation and foreign exchange transactions. IFRS also includes standards on biological assets that IAS doesn’t factor in.

There is a need for clarity about the time by which companies need to convert their accounts as per IFRS; if there are changes to be made to regulatory frameworks, then by when that should happen; changes in accounting standards should be on a fast-track basis; how the indirect and direct taxes would be levied. Conversion to IFRS is a tedious task involving significant time, cost and efforts. For large groups, conversion to IFRS may take even more than one year. To facilitate the same, the roadmap should be absolutely clear on the aforesaid aspects. For conversion to IFRS, changes would be needed in the Companies Act, Banking Regulation Act, SEBI Regulations, Guidelines and the Listing Agreement, IRDA Regulations and Electricity Act. Changes would also be required in the direct and indirect taxes. The proposed direct taxes code fails to mention anything about the IFRS, the committee should take into concern this aspect too.

Convergence to IFRS is likely to pose significant challenges for banks, as shown by global experience. Certain large Indian banks, which have the benefit of going through the process of international GAAP such as US GAAP in the past, have recognized the challenges of convergence and have already started planning their detailed roadmap to achieve a smooth convergence. It is time for other banks to take the cue and follow suit. Critical to the successful implementation of IFRS in the Indian context would be the level of regulatory sponsorship.
the appropriate level of investment in systems and processes and consistency in market practices for areas where judgment is critical.

India’s Preparedness for IFRS

IFRS can have wide-ranging effects on the organization and therefore may require a comprehensive and strategic approach to adopt. A smooth transition to IFRS typically involves the development of an IFRS implementation roadmap. The goal of the roadmap is to develop an implementation plan that is cost effective and controlled. For a large multinational company, the transition to IFRS generally takes at least three years, depending on the complexity of the entity. As companies begin their IFRS planning, they should consider a suitable approach for the company in organizing the technical accounting changes and broader implications of IFRS.

The Government had expressed its intent to facilitate the convergence of the Indian accounting standards with IFRS by April 1, 2011. Government has adopted this approach, keeping in view the requirements relevant to Indian conditions and to enable Indian companies, including Public Sector Undertakings, and regulatory bodies to move into the new system smoothly. It is now important for the government to bring out a clear cut report mentioning all the details.

In India, there is a dearth of expertise and experience in IFRS. Roping in Indian universities and working with companies to impart training to employees is the need of the hour. There is also a need for Indian universities to work closely with universities abroad to offer courses on IFRS. It is important that stakeholders such as investors, preparers, auditors, regulators and academics take sufficient measures so that they can understand and utilize IFRS appropriately.

ICAI is serious and doing everything to enable convergence of Indian Standards with IFRS. It has convinced that 80 hours is all it will take for the country’s accountants to learn the length and breadth of an international standard that could soon become the way the world writes its books. The course will help CAs to enable companies in starting maintenance their books according to IFRS. The course structure and testing modules are ready for an 80 hour certificate course. CAs will get the flexibility of attending training classes over the weekends and completing the course over three-four months time so that their work is not affected.

The Core Group, comprising representatives from SEBI, RBI, ICAI, IRDA and banks, among others, are preparing the roadmap for the convergence of Indian accounting standards with the IFRS by April 1, 2011.

The mandatory convergence will happen by 2011, this will happen only at ICAI’s level; the government and regulatory bodies overseeing the financial sector here are yet to commit to IFRS either through legislation or guidelines to companies. Several Indian companies, however, are expected to adopt these standards because of their universal acceptance. Some Indian companies already presenting their accounts according to US Generally Accepted Accounting Practice (US GAAP), because they are listed on American exchanges.

Corporate India expects the International Financial Reporting Standards (IFRS) to be applicable from April 1, 2011, and the executives are confident of meeting the deadline, according to a survey of senior finance executives by Ernst & Young. The primary objective of the survey was to gauge India Inc’s readiness for transition to IFRS. The important findings of the survey were as under:

- Of the 112 responses received across a wide range of industries, an overwhelming 79 per cent said that IFRS will apply from 2011.
• Overall, the survey gave an encouraging sign of India Inc's readiness to IFRS adoption, though there are some murmurs of discontentment.
• The 79 per cent confidence vote was somewhat undermined by the fact that 78 per cent respondents had not established a timetable for the transition and 68 per cent respondents were not assigned any resources.
• A majority of respondents, 56 per cent, were worried about unclear tax laws and 58 per cent respondents were concerned about unclear regulations on IFRS adoption.

Strategies for Smooth Transition to IFRS

Some of the important strategies for smooth transition are given in this section of the paper:

Change in mindset from rules-based to principle based accounting: This will require more professional judgment in the determination of accounting outcomes, which poses an organizational challenge, especially for large multinational companies that need to make sure that professional judgment is applied consistently throughout the organization. In response, companies may need to focus on creating a framework for making these judgments.

IFRS education: There is a need for IFRS education and training for current and future financial professionals. It is the need for companies to consider cost effective ways to develop qualified staff.

Minimal or fresh start approach: The needs and situation of the company will likely dictate the best approach for the organization. A company may wish to stay as close as possible to U.S. GAAP, thereby minimizing differences. Or, a company may choose to take a “fresh start” approach, which involves preparing the balance sheet as if the company had always applied IFRS.

Technical accounting changes: Companies should assess the expected technical accounting changes connected to a transition to IFRS. These changes may drive the company's approach in implementing IFRS.

Financial reporting process enhancements: For MNCs, it is important to consider the impact and opportunities that IFRS will have on its global reporting processes. MNCs may be able to use a transition to IFRS to align statutory reporting in an increasing number of countries with consolidated reporting.

Broader implications: A transition to IFRS will also affect a company’s internal controls and processes and technology infrastructure. For many companies, it may mean that existing multi-year plans to implement or upgrade IT systems will have to be adjusted to consider the effects of IFRS. IFRS implementation also may have legal and tax implications.

Conclusion

IFRS, by forcing a change of thinking, has become the new management mantra. IFRS is also clear that there are multiple ways of challenging the status quo. For IFRS to be applied in India, it is essential that Indian GAAP and IFRS further converge, with regard to other issues in addition to existing differences, and that further progress is made concerning their practices. Therefore, stakeholders are strongly encouraged to make further efforts toward promoting the international convergence. For IFRS to function well at each stage of the financial reporting process, it is important to ensure that IFRS appropriately reflect business practices in India and fairly represent the economic reality of Indian businesses. It is also important that IFRS are sufficiently examined, taking into account current global market developments. By taking stock of the efforts put by the Government of India, ICAI and other regulatory authorities, it can be said that India will meet the deadline and converge with IFRS and Indian companies benefit from it.
REFERENCES


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