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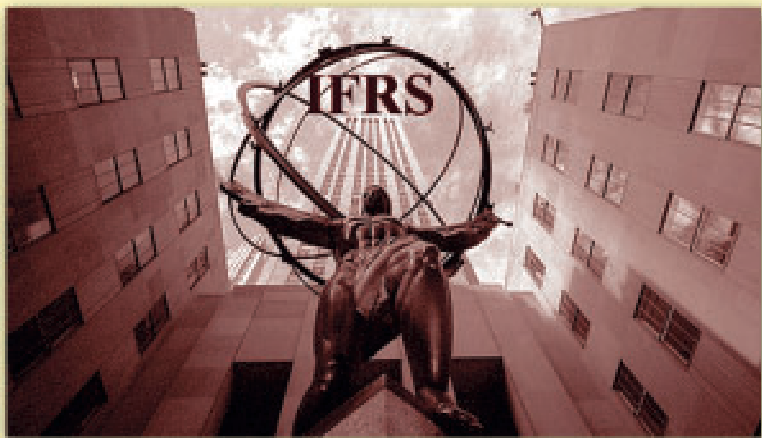

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INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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22nd Year of Publication

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SIB STUDENTS' ECONOMIC FORUM

FEBRUARY 2013

The South Indian Bank Ltd., H.O. : 'S.I.B. House', Thrissur, Kerala

Theme No. 255 : INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

A well informed customer will make the policy makers as well as organisations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organisations and improve the quality of goods and services produced.

The "SIB Students' Economic Forum" is designed to kindle interest in economic affairs in the minds of our younger generation. We highlight one theme in every monthly meeting of the "Forum". The world has now transformed into a global economic centre and the world of finance has realised the necessity of a universal language in the preparation of financial statements. We discuss, this month, on the International Financial Reporting standards (IFRS), the convergence of which is one of the major reforms eagerly awaited by the Indian Companies.

What do you know about IFRS?

The capital markets, all over, derived a global status with investors making decisions based on global parameters. The investor communities have been fast recognising the need for a common set of accounting standards. International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements. IFRS are a principle based standards adopted by almost 100 countries with a common initiative for devising a global accounting harmonisation issued by the IASB. Earlier the accounting standards were issued as IAS (International Accounting Standards) and the responsibility was taken over by IASB to introduce the present standards with global acceptance. The Indian Companies are waiting for convergence of IFRS to facilitate easy access to major capital markets at a lower cost. IFRS helps reduce the audit fees through elimination of keeping multiple records and preparing consolidated financial statements for different stock exchanges. The ICAI (Institute of Chartered Accountants of India) has already initiated steps for early convergence to the new set of standards which may enable the corporate world to have better access to the global markets.

How is the adoption of IFRS seen in the global context?

With major economies like India moving forward with liberalisation and globalisation, the concept of global market has assumed much significance. The corporate world is fast progressing with development in e-commerce and m-commerce. The MNCs are establishing business connections in emerging economies. In this context, it is absolutely essential for these companies to tap the global markets to augment capital by listing their shares in various stock exchanges outside. The investors and other users of the financial statements have felt the need of a standardised format which prompted the countries to converge their existing accounting standards with IFRS. Canada and Korea are expected to converge to IFRS soon. Mexico has made IFRS mandatory for all listed companies from 2012. Japan has introduced a roadmap for adoption to IFRS by 2015 or 2016. Still other countries have plans to converge their national standards with IFRS. Adoption would mean full-fledged use of IFRS as issued by the IASB by the Indian companies. Convergence means that the Indian Accounting Standards (AS) and the International Financial Reporting Standards (IFRS) would, over time, continue working together to develop high quality, compatible accounting standards.

What is the role of IASB?

IASB is an independent accounting standard-setting body, based in London. It consists of 15 members from nine countries, including the United States. The IASB began operations in 2001 when it succeeded the International Accounting Standards Committee. It is funded by contributions from major accounting firms, private financial institutions and industrial companies, central and development banks, national funding regimes, and other international and professional organizations throughout the world. While the AICPA (American Institute of Certified Public Accountants) was a founding member of the International Accounting Standards Committee, it is not affiliated with the IASB.

What are the major advantages and disadvantages of convergence to IFRS?

The major advantages are

- ❖ Improves investor confidence across the world with transparency and comparability
- ❖ Improves inter-unit/ inter-firm/inter-industry comparison
- ❖ Group consolidation made easy with same standard by all companies in group wherever located
- ❖ Acceptability of financial statements across all stock exchanges, which facilitates entry of any Indian company to any stock exchange across the globe

By adopting IFRS, a business can present its financial statements on the same basis as its foreign competitors, making comparisons easier. Furthermore, companies with subsidiaries in countries that require or permit IFRS may be able to use one accounting language company-wide. Companies also may need to convert to IFRS if they are a subsidiary of a foreign company that uses IFRS, or if they have a foreign investor that uses IFRS. Companies may also benefit by using IFRS if they wish to raise capital abroad.

Even though there is global acceptance of IFRS, some of the users believe that U.S. GAAP is the gold standard, and that a certain level of quality will be lost with full acceptance of IFRS. Further, certain issuers without significant customers or operations outside their countries may resist IFRS because they may not have a market incentive to prepare IFRS financial statements. They may believe that the significant costs associated with adopting IFRS outweigh the benefits.

What are the major differences between existing Indian Standards and IFRS?
The major difference is in fair value accounting with introduction of some new concepts and models such as the acquisition method in lieu of purchase method in business combinations. Again certain practices such as the LIFO (Last In First Out) method have been removed in accounting of inventories. Every corporate has to take the necessary step in understanding the new standards, training its staff and paving a smooth transition. The top management has to take the initiative for the smooth transition.

What are the major challenges in implementation?

- ❖ Training of accounting professionals to adapt to the new standards
- ❖ Changes required in accounting software and information technology systems
- ❖ Issues related to different legal and regulatory requirements

The key divergences between Indian accounting standards and IFRS have come up mainly due to the conceptual difference, legal and regulatory requirements, present economic conditions and the level of preparedness from our side. The accounting professionals, valuation experts, actuaries and so on will have a role to play once there is convergence with IFRS. The costs would be determined largely by the size and nature of the respective company. The initial cost to identify and quantify the differences between Indian Accounting Standards (AS) and IFRS, staff training, and implementing IT support could be significant.

What are the regulatory requirements envisaged while implementing the converged accounting standard?
The changes in the regulations relating to SEBI, RBI and IRDA are required to be aligned with IFRS. The Institute of Chartered Accountants of India is in continuous discussion with the respective regulators to enable a smooth transition.

Which are the different phases involved in the convergence to IFRS?
There are three stages in the implementation.

1. Pre-Implementation Phase
2. Transition Phase
3. Post-Implementation Phase

   Under the pre-implementation phase, the key focus is on formulation of a detailed plan followed by identification of key areas of difference between existing accounting policies and requirements of IFRS. Once the implications have been analyzed in detail, the accounting team has to be educated and trained. In the transition phase, the major step is to map the existing systems, process, and controls with IFRS and identify the impacted areas followed by making changes in the process, controls, business documentation and standard operating procedure. The post-implementation stage includes validation of changes made, testing of high risk areas for accuracy of systems and procedures followed by continuous monitoring of IFRS regulatory changes.

How is the plan for convergence of IFRS in India?

As per the notification of the Ministry of Corporate Affairs, convergence of Indian Accounting Standards (AS) with International Financial Reporting Standards (IFRS) will take place in phases. The first phase commences 1st April 2011.There are some conceptual differences in some standards.

2011	2012	2013	2014
NSE-Nifty 50companies BSE-Sensex 30 companies Companies whose shares or other securities are listed on a stock exchange outside India Companies, whether listed or not, having a net worth of more than INR1,000crore	All Insurance companies	Companies listed or not having a net worth between Rs. 500crore and Rs.1,000crore All Scheduled Commercial Banks Urban Cooperative banks with net worth in excess of Rs.300crore NBFCs- Nifty 50 / Sensex 30 NBFCs listed or nor having a net worth above Rs.1000 crore	Listed Companies having a net worth of less than Rs.500crore Urban Cooperative banks with net worth between Rs.200 and Rs.300crore NBFCs (all other listed) NBFCs (other unlisted) having net worth between Rs.500 crore and Rs.1,000 crore.

If the financial year of a company commences at a date other than 1 April, it shall prepare its opening balance sheet at the commencement of immediately following financial year.

IFRS

⬇

Board of Public Capital Market Authorities

(Monitoring)

⬇

IFRS FOUNDATION

(Governance)

IFRS Advisory Council

IFRS Interpretation Committee (IFRIC)

IASB

SME Implementation Group

INDIAN ACCOUNTING STANDARDS (AS)& IFRS

Terminologies:

AS	IFRS
Balance Sheet	Statement of Financial Position
Statement of Profit and Loss Account	Statement of Comprehensive Income
Approval for the financial statement for issue	Authorisation of the financial statements for issue
Cash Flow	Statement of Cash flow for the period
Significant Accounting Policies and Notes to Accounts	Notes, comprising a summary of significant Accounting Policies and other explanatory information

Your comments and feedback on this publication may be sent to Staff Training College, The South Indian Bank Ltd., Thrissur 680 001 or by E.mail: ho2099@sib.co.in


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