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## Globalisation of Financial Reporting System through Implementing IFRS in India

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*Abstract: Economic development of any country is supported by strong governance, high quality standards and firm regulatory framework. Sound financial reporting standards underline the trust that investors place in financial information. In this way, such standards play an important role in the economic development of a country. As it is being said that the world is becoming a village, discussion on convergence of accounting standards of a country with IFRS has increased significantly.*

*In India, the ICAI formulates the accounting standards on various issues. But since last few years, the aim has been following the IFRS to the extent possible. Henceforth, while issuing accounting standards, IFRS need to be adopted suitably. However, deviations from IFRS have been noted due to some unavoidable reasons like legal and regulatory requirements, economic environment, level of preparedness, conceptual differences etc. Thus, it can be argued that even if there has been a lot of deliberation on convergence of Indian accounting standards with IFRS, it is difficult to adopt IFRS considering the indigenous problems. In order to resolve this problem, the ICAI has given a roadmap through which, IFRS can be adopted in India in a phased manner from April, 2011.*

*The present paper tries to highlight the road map of adoption of IFRS in India, the challenges posed by the adoption of IFRS and particularly the role of academicians for convergence with IFRS.*

*Keywords: Accounting standards, IFRS, IAS and Convergence.*

### I. Introduction : Indian Accounting Standards, IAS and IFRS

In India, the Central Government prescribes accounting standards in consultation with the National Advisory Committee on Accounting Standards (NACAS) established under the Companies Act, 1956. NACAS, has been engaged in the exercise of examining Accounting Standards prepared by ICAI. It has adapted the international norms established by the International Financial Reporting Standards issued by the International Accounting Standards Board. The Central Government notified 28 Accounting Standards (AS 1 to 7 and AS 9 to 29) in December 2006 in the form of Companies (Accounting Standard) Rules, 2006, after receiving recommendations of NACAS. The Government has adopted a policy of enabling disclosure of company accounts in a transparent manner at par with widely accepted international practices, through a process of convergence with the International Financial Reporting Standards (IFRS). The initiative for harmonization of the Indian accounting standards with IFRS, taken up by NACAS in 2001 and implemented through notification of accounting standards by the Central Government in 2006.

The Indian corporate accountant today, while presenting financial statements, prepares them as per AS (Indian Accounting Standards), US GAAP if the stocks are listed in USA, or other standards depending on where the stocks are listed. This is also true of MNCs who establish their shop in India, which is one of the most sought after destinations for setting up their business operations. Further, different reporting frameworks in various countries lead to inconsistent treatment and presentation of

economic transactions by entities. This can cloud the outlook and perspective of investor's vis-à-vis the entities, which, in turn, results in capital market inefficiencies across the world.

Such increasing complexity of business operations and globalisation of capital markets makes mandatory a single set of high quality reporting standards. This space can aptly be filled in with the emergence of International Financial Reporting Standards (IFRS), as formulated by the International Accounting Standards Board. IFRS has emerged as a new force in aligning the global firms on a single line.

International Financial Reporting Standards are set by the International Accounting Standards Board (IASB). The mission of IASB is to develop, in the public interest, a single set of high quality, understandable and International Financial Reporting Standards (IFRS) for general purpose financial statements. IASB is an independent standard-setting board, appointed and overseen by a geographically and professionally diverse group of Trustees of the IASC Foundation who are accountable to the public interest. It is supported by an external advisory council (SAC) and an interpretations committee (IFRIC) to offer guidance wherever divergence in practice occurs. The IASB cooperates with national accounting standard setters to achieve convergence in accounting standards around the world.

## II. The Convergence

### 1) Overview of Convergence across Countries:

European Union, Australia, New Zealand and Russia have already adopted IFRS for listed companies. China has started adoption of IFRS from 2008 and Canada has decided to adopt the same from 2011. As regards United States of America, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board are working together towards convergence of the US GAAP and the IFRS. The Securities Exchange Commission (SEC) has also made a proposal to permit in near future filing of IFRS-compliant financial statements without requiring presentation of a reconciliation statement between US GAAPs and IFRS.

### 2) Indian Scenario:

With regard to India, the Ministry of Corporate Affairs has committed to converge the Indian Accounting Standards with the IFRS effective 1st April 2011. The convergence process is picking up momentum with the credit going to the Ministry of Corporate Affairs. The Ministry has extended its unstinted support and guidance to the various regulatory and legal bodies that are spearheading a smooth transition process. Laudably, the highest authorities of the Indian Government have concluded that convergence of Indian Accounting Standards with IFRS is very vital for the country to take a lead role in the global foray.

### 3) Benefits from Convergence with IFRS:

The adoption of IFRS is expected to have a significant impact on all stakeholders, such as regulators, professionals, preparers of financial statements, analysts, users of financial information and so on.

**The Economy:** The convergence with IFRS benefits the economy as a whole by accelerating growth of international business. It strengthens the economy with a strong and efficient capital market, where cost of capital becomes cheaper, leading to inflow of international investment into the country.

**The Investors:** Convergence with IFRS facilitates those investors who want to expand their cross-border business operations. For this purpose, investors want information that is relevant, reliable, timely and comparable across locations. Convergence with international standards will mean a clear understanding of financial statements by investors.

**The Industry:** Entities can raise capital from foreign markets at lower cost only if they can create trust and confidence in the minds of the foreign investors through "True and Fair" presentation of their financial statements by adopting globally acceptable standards.

**The Accounting Professionals:** Convergence benefits accounting professionals who can offer their services to different parts of the world. It offers diverse opportunities to accounting professionals in any part of the globe, as the same accounting practices prevail throughout the world.

### **III. Role of Training Institutes/Academician for Convergence with IFRS**

The types of attacks on the security of a computer system or network are best characterized by viewing the function of the computer system as providing information. In general, there is a flow of information from a source, such as a file or a region of main memory, to a destination, such as another file or a user.

#### **1) ICAI's Initiatives for adoption of IFRS:**

In this scenario, India, though being an important emerging economy in the world, is yet to adopt the IFRS. Internationally, in so far as cross-border investments are concerned, a non-IFRS compliant country is perceived as an additional risk factor. Within India also, in recent times, the issue of convergence with IFRS has been raised time and again at various forums. After a series of discussion with various legal and regulatory authorities, the Ministry of Corporate Affairs has committed itself to convergence of Indian entities with IFRS from April 2011. ICAI was given the responsibility of formulating the convergence process and ensure smooth convergence. For this purpose, the Accounting Standard Board (ASB) of ICAI constituted a Task Force in the year 2006 to explore the approach for convergence with IFRS and lay down the road map for convergence with IFRS. Since then, ICAI has been relentlessly making extensive analysis of various phases the convergence process would go through. It has identified the legal and regulatory requirements arising out of convergence with IFRS. ICAI has also recommended changes in the respective Acts, guidelines and other regulatory provisions related to RBI, SEBI, NACAS and IRDA and have submitted its recommendations to the respective authorities.

This would eventually pave the way to a smooth transition process. In addition, the ICAI Accounting Board has pointed out several national issues requiring debates and conclusions that would enable the convergence process to meet the deadline.

#### **2) Other Stakeholders Involved:**

As the convergence process involves concerted efforts of legal and regulatory authorities concerned, all recommendations to various authorities have to be considered and closed by the respective regulators. This is the last mile to go to complete the convergence process. The list of such recommendations sent to the various Ministries/Regulatory authorities is presented here:

- Changes required in Company's Act 1956
- Changes required in SEBI guidelines
- Changes required in IRDA rules and regulations
- Changes required in RBI Banking Regulation Act.
- Standards to be notified by NACAS

In addition to implementation of the changes suggested by way of notifications / guidelines and so on, the applicability of IFRS to the types of entities has to be finalised.

#### **3) Implementation Phase in India:**

The applicability of International Financial Reporting Standards for convergence of Indian entities would be in several phases as the issues involved in one-shot adoption are complex. For example, there are issues to be addressed, which may impact tax revenue collection in the Indian scenario. Also to be sorted is the applicability of IFRS to Small and Medium Scale Enterprises, pending deliberations by various authorities.

Hence, in the first phase, ICAI has submitted a suggested list of companies that come under different parameters for adoption of IFRS standards. These entities include companies listed with BSE / NSE Sensex, insurance companies, mutual funds, entities with a capital base of over 50 million dollars outside India, companies that are publicly accountable with an aggregate borrowing of over Rs. 1,000 crores and such others.

#### 4) Training on IFRS:

India has a large number of accounting professionals. ICAI has already taken the initiatives for a comprehensive capacity building program to prepare the CA profession for this transition. A large number of professionals have already undergone training and this process is being accelerated by the ICAI. To summaries, convergence is inevitable. The timeline is tight. The need of the hour is coordinated and continuous efforts by all concerned to make the process a grand success.

#### 5) Role of Universities and Colleges:

With a view to prepare its existing and prospective members for the impending adoption of the IFRSs from 1st April, 2011, the universities should formulate strategies with regard to the following:

- I. To revise the syllabi of the Accountancy at various levels like B.Com./M.Com. to include IFRSs as a part of its curriculum;
- II. The universities along with industry associations and the chartered accountants should hold intensive workshops on IFRSs to train the members in practice as well as in industry.
- III. To percolate the training given to the members to the students.
- IV. To prepare educational material to guide on various intricacies involved in the implementation of IFRSs. The educational material may focus on those areas which are new compared to the existing Accounting Standards.

#### IV. Conclusion

To ensure smooth convergence with IFRSs, up to 2011 and thereafter also, IASB, ICAI, Industry associations, Government and the regulators are expected to play an important role. Collectively, these institutions have to work together for smooth adoption of IFRS. These stakeholders have to provide guidance on issues emerging on adoption of IFRSs on timely basis at least up to 2011. Apart from these, they have to address concerns about the complexity and structure of the international standards. It is expected that these stakeholders make sure that the standards are in simple English that is understandable, clear and capable of translation and consistent application. In developing the IFRS and setting effective dates, the fact that the final standards are required to be translated in India for the purpose of Government Notification as also practical applications by the industry. For successful implementation of IFRS in India through convergence, it is necessary to train the academicians about various intricacies of the IFRS. Then only, the academicians would be in a position to give their contribution in such implementation. The role of academicians is at the centre stage as they have an ability to prepare the young aspirants in the field of accountancy to face the challenges posed in the profession of accountancy.

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