CA MOHD. ASIF

(ACA, ICWA, B.COM)

MOBILE: - 09919778788, 08081939342

E-MAIL:- ca.asiffarooqui@gmail.com, asifca786@gmail.com

Marching Ahead - India Inc. Closer to Convergence with IFRS

The present era of globalization and liberalization has shrunk the geographical barriers of commerce. The whole world has literally become flat. One can see the cross-border economic activities happening in a swift way, thanks to technological innovations. Entities around the globe venture into business activities either through their own presence in different parts of the world or through their subsidiaries, associates and joint ventures. These entities are listed on major stock exchanges of the world. Capital markets have also spread their wings across the globe, leading to free flow of domestic and foreign direct investments to different parts of the world.

Given these scenarios, a common and uniformly accepted Financial Reporting System, supported by strong governance practices and a firm regulatory framework, strengthens the economic development of any country. As investors have also become global, financial statements of entities of different countries should be comparable on prescribed common parameters. A common set of financial statements help investors better understand investment opportunities worldwide as against financial statements of different standards unique to each country.

The Indian CFO 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 investors vis-a-vis the entities, which, in turn, results in capital market inefficiencies across the world.

Such increasing complexity of business operations and globalization 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 Accounting Standard Board

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.

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.

MAILING ADDRESS

C/O R.A.HASHMI,

D-18 SARVODAYA NAGAR NEAR TECHNO ACADEMY SCHOOL

LUCKNOW-226016

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.

Benefits of Achieving Convergence with IFRS

The adoption of IFRS is expected to have a significant impact on all stakeholders, such as regulators, professionals, prepares 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.

Other Stakeholders on the Move

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 finalized.

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.

Training on IFRS

India has a large number of accounting professionals. ICAI has already taken the initiatives for a comprehensive capacity building programme 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.

THE END