

A Theoretical Study on Indian Accounting Standards for Banks and Non-Banking Financial Companies

Amrita Dutta

Research Scholar, Department of Commerce, Assam University, Diphu Campus, Diphu, Karbi-Anglong, Assam-782460

Prof. Ratan Borman

Professor, Department of Commerce, Assam University, Diphu Campus, Diphu, Karbi-Anglong, Assam-782460

Dr. Subit Dutta

Assistant Professor, Department of Commerce, Assam University Diphu Campus, Diphu, Karbi-Anglong, Assam-782460.

Abstract

The Ministry of Corporate Affairs (MCA), Government of India has notified the Companies (Indian Accounting Standards) Rules, 2015 on February 16, 2015. A reference is also invited to the Press Release dated January 18, 2016 issued by the MCA outlining the roadmap for implementation of International Financial Reporting Standards (IFRS) converged Indian Accounting Standards for banks, non-banking financial companies, select All India Term Lending and Refinancing Institutions and insurance entities. In this paper there is an attempt of specifically dealing with the applicability of the Indian Accounting Standards for Banks and Non-Banking Financial Companies (NBFCs).

Key words: IFRS, IND AS, Banks, NBFCs.

Introduction

India embarked on its journey of convergence to International Financial Reporting Standards (IFRS) in 2006 with the Institute of Chartered Accountants of India (ICAI) by setting up a Task Force to consider the adoption of IFRS. In 2007, this Task Force published a comprehensive Concept Paper that recommended a convergence strategy rather than full-fledged adoption, taking into consideration legal, regulatory and conceptual differences as well as existing business practices in India. The ICAI suggested that IFRS converged accounting standards should be adopted for public interest entities such as listed entities, banks and insurance entities and large-sized entities from the accounting periods beginning on or after April 1, 2011.

The convergence process received a substantial fillip with India making a commitment to converge the national accounting standards with IFRS at the G20 summit in Pittsburgh in 2009. As part of this commitment, the Ministry of Corporate Affairs (MCA), Government of India (GoI), released a road map in January 2010 which entailed IFRS convergence in a phased manner commencing from April 1, 2011 onwards for corporates, with the banking industry converging later from April 1, 2013 onwards. The delayed migration to IFRS converged standards by the banking industry, was on account of the anticipated changes in the global standards for financial instruments by June 2011 as the International Accounting Standards Board (IASB) had embarked on a joint

project with the Financial Accounting Standards Board (FASB) of the US to replace International Accounting Standard (IAS) 39: 'Financial Instruments- Recognition and Measurement' with IFRS 9 -Financial Instruments. The initial plan of MCA was to implement Ind AS for banks, insurance companies and NBFCs from April 1, 2018 onwards. With recent developments, the Ind AS implementation date has been deferred for banks by one year and for insurance entities by two years. With no announcement for any deferral in relation to NBFCs, it appears that they would be required to implement Ind AS in phases I and II from April 1, 2018 (transition date being April 1, 2017) onwards. In this case, Ind AS would be applicable to both, their separate and consolidated financial statements. Further, clarity from MCA on Ind AS applicability to NBFCs may be required.

The Reserve Bank of India (RBI) released its first monetary policy statement for FY 2018-19 on April 5, 2018 ('Policy Statement'). The statement sets out various developmental and regulatory policy measures for the financial sector. It aims at strengthening regulation and supervision; broadening and deepening financial markets; improving currency management; promoting financial inclusion and literacy; and, facilitating data management.

Objectives of the Study

1. To comprehend the applicability of Ind AS for Banks and NBFCs.
2. To underline the necessities of Banks and NBFCs in the transition to Ind AS Adoption.

Research Methodology

The present study is descriptive in nature and there is an attempt to analyse the applicability of Ind AS for Banks and NBFCs and their requirements for Ind AS adoption. For this purpose all the electronic sources are used which includes the official websites of RBI, KPMG India, Deloitte, Ernst and Young India, PWC etc. and also includes different published articles, research papers, e-books etc.

RBI's Initiatives for Ind AS Implementation

In order to facilitate a smooth convergence and address implementation issues for the Indian banking system, the Reserve Bank of India(RBI) set up a Working Group in July 2010, under the Chairmanship of Shri P R Ravi Mohan, the then Chief General Manager of erstwhile Department of Banking Operations and Development (DBOD), comprising professionals with experience in IFRS implementation, representatives from the Indian Banks' Association (IBA) and ICAI as well as officers from various regulatory, supervisory and market departments of the RBI.

In this connection, it is advised that scheduled commercial banks (excluding RRBs) shall follow the Indian Accounting Standards as notified under the Companies (Indian Accounting Standards) Rules, 2015, subject to any guideline or direction issued by the RBI in this regard, in the following manner:

(i) Banks shall comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning from April 1, 2018 onwards, with comparatives for the periods ending March 31, 2018 or

thereafter. Ind AS shall be applicable to both standalone financial statements and consolidated financial statements. “Comparatives” shall mean comparative figures for the preceding accounting period.

(ii) Banks shall apply Ind AS only as per the above timelines and shall not be permitted to adopt Ind AS earlier.

(iii) The Reserve Bank shall also take steps to facilitate the implementation process. To begin with, from April 2016, the Reserve Bank shall hold periodic meetings with banks in this regard. The Reserve Bank shall issue necessary instructions/guidance/clarifications on relevant aspects as and when required.

(iv) Banks shall disclose in the Annual Report, the strategy for Ind AS implementation, including the progress made in this regard. These disclosures shall be made from the financial year 2016-17 until implementation.

(v) The Boards of the banks shall have the ultimate responsibility in determining the Ind AS direction and strategy and in overseeing the development and execution of the Ind AS implementation plan.

RBI had also issued the guidelines for regulating the issuance and operation of prepaid payment instruments (PPIs). The regulations require PPI issuers to maintain a log of all the transactions undertaken using the PPIs for at least ten years at a centralised database. However, the regulations do not specifically provide the location for maintenance of such data.

The RBI has also issued a directive under Section 10(2) and Section 18 of Payment and Settlement Systems Act 2007 on April 6, 2018. As per the said notification, all system providers, including authorised payment systems and payment banks, are required to ensure that the entire data relating to payment systems operated by them, including the full end-to-end transaction details / information collected / carried / processed as part of the message / payment instruction, are stored in a system only in India

Roadmap for Banks and NBFCs

In pursuance to the Budget Announcement by the Union Finance Minister Shri Arun Jaitley, after consultations with Reserve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA) and Pension Fund Regulatory and Development Authority (PFRDA), the following roadmap for implementation of Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) for Scheduled commercial banks (excluding RRBs), insurers/insurance companies and Non-Banking Financial Companies (NBFC's) has been drawn up:

(I.) Scheduled commercial banks (excluding RRBs) and Insurer/Insurance Companies:
(a) Scheduled commercial banks (excluding Regional Rural Banks (RRBs), All-India Term-lending Refinancing Institutions (i.e. Exim Bank, NABARD, NHB and SIDBI) and Insurers/Insurance companies would be required to prepare Ind AS based financial statements for accounting periods beginning from April 1, 2018 onwards, with comparatives for the periods ending March 31, 2018 or thereafter. Ind AS would be applicable to both consolidated and individual financial statements.

(b) Notwithstanding the roadmap for companies, the holding, subsidiary, joint venture or associate companies of Scheduled commercial banks (excluding RRBs) would be required to prepare Ind AS based financial statements for accounting periods beginning from April 1, 2018 onwards, with comparatives for the periods ending March 31, 2018 or thereafter.

(c) Urban Cooperative Banks (UCBs) and Regional Rural Banks (RRBs) shall not be required to apply Ind AS and shall continue to comply with the existing Accounting Standards, for the present.

(II.) NBFCs:

NBFCs will be required to prepare Ind AS based financial statements in two phases:

(a) Under Phase I, the following categories of NBFCs shall be required to prepare Ind AS based financial statements for accounting periods beginning from April 1, 2018 onwards with comparatives for the periods ending March 31, 2018 or thereafter. Ind AS would be applicable to both consolidated and individual financial statements.

(i) NBFCs having net worth of Rs.500 crores or more.

(ii) Holding, subsidiary, joint venture or associate companies of companies covered under (a)(i) above, other than those companies already covered under the corporate roadmap announced by the Ministry of Corporate Affairs (MCA), Government of India (GoI).

(b) Under Phase II, the following categories of NBFCs shall be required to prepare Ind AS based financial statements for accounting periods beginning from April 1, 2019 onwards with comparatives for the periods ending March 31, 2019 or thereafter. Ind AS would be applicable to both consolidated and individual financial statements.

(i) NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth less than Rs.500 crores.

(ii) NBFCs other than those covered in (a)(i) and (b)(i) above, that are unlisted companies, having net worth of Rs.250 crores or more but less than Rs.500 crores.

(iii) Holding, subsidiary, joint venture or associate companies of companies covered under (b) (i) and (b)(ii) above, other than those companies already covered under the corporate roadmap announced by the MCA, GoI.

NBFCs having net worth below Rs. 250 Crores and not covered under the above provisions shall continue to apply Accounting Standards specified in Annexure to Companies (Accounting Standards) Rules, 2006.

(III.) Scheduled commercial banks (excluding RRBs)/NBFCs/insurance companies/insurers shall apply Indian Accounting Standards (Ind AS) only if they meet the specified criteria, they shall not be allowed to voluntarily adopt Indian Accounting Standards (Ind AS). This, however, does not preclude an insurer/insurance company/NBFC from providing Ind AS compliant financial statement data for the purposes of preparation of consolidated financial statements by its parent/investor, as required by the parent/investor to comply with the existing requirements of law. On April 5, 2018, the Reserve Bank of India (RBI) through its press release deferred

the implementation of Indian Accounting Standards (Ind AS) by one year for scheduled commercial banks i.e. 2019-20 would be the first year of Ind AS with 2018-19 as the comparative year.

The implementation of Ind AS by banks requires certain legislative changes in the format of financial statements to comply with disclosures required by Ind AS. The change in format requires an amendment to the third schedule of the Banking Regulation Act, 1949 to make it compatible with accounts under Ind AS. Considering the pending amendments to the Banking Regulation Act, 1949, as well as the level of preparedness of several banks, RBI has taken a decision to defer the applicability of Ind AS. Also, RBI is yet to issue prudential norms and operational guidelines to facilitate the implementation of the new accounting standards.

Journey of Ind AS for Banks

The following table presents the journey of Ind AS for banks:

Date	Particulars
29 September 2015	The RBI recommended a road map for banks to Ministry of Corporate Affairs (MCA) for implementation of Ind AS from 2018-19 onwards. Also constituted a Working Group in September 2015 for implementation of Ind AS by banks.
October 2015	The RBI issued a report of its Working Group, which provided recommendations on key areas with a focus on financial instruments, as well as formats for financial statements.
11 February 2016	The RBI issued a circular requiring scheduled commercial banks (excluding regional rural banks) to comply with Ind AS for accounting periods beginning from 1 April 2018 onwards, with comparatives for periods ending on or after 31 March 2018.
30 March 2016	The MCA clarified the applicability of Ind AS to scheduled commercial banks from 1 April 2018 onwards.
23 June 2016	The RBI issued directions to all scheduled commercial banks submit their Ind AS pro forma financial statements for the half-year ended 30 September 2016, latest by 30 November 2016.

Deferment of Ind AS for banks

The deferral of Ind AS is expected to provide significant relief to the banking sector in India, considering the pending issuance of a revised format for financial statements and operational guidelines for implementation of Ind AS. The implementation of Ind AS is expected to have a pervasive impact on the banking sector, not only in terms of accounting changes, but also on several aspects of their business.

The largest impact is expected on accounting for financial instruments, on application of Ind AS 109, Financial Instruments (which is based on IFRS 9, Financial Instruments), Ind AS 32, Financial Instruments: Presentation (based on IAS 32, Financial Instruments: Presentation) and Ind AS 107, Financial Instruments: Disclosures

(based on IFRS 7, Financial Instruments: Disclosures). The implementation of these financial instruments standards is expected to affect almost all line-items in the banks' financial statements. Ind AS 109 also requires early recognition and significant increase in provisions for loans and off-balance sheet exposures based on an Expected Credit Loss (ECL) model. This change is likely to increase the capital requirements in banking sector. The Ind AS deferral would provide more time for implementation of Ind AS for the banking sector, to better prepare for this major financial reporting reform. Banks in India should enhance their efforts towards Ind AS transition and use the additional time available to implement robust processes and systems to ensure compliance with Ind AS from 1 April 2019 onwards.

Ind AS, being converged with global standards, is expected to enhance the comparability of the financial statements of Indian banks with their global counterparts. IFRS 9 being a global financial instruments accounting standard is applicable from January 1, 2018 in several countries across the world. With the Indian banking sector implementing the converged Ind AS 109 one year later, banks in India are expected to benefit from the collective implementation experience of their global peers. However, the delayed adoption would impact the comparability of financial statements of banks in India with their global counterparts.

The RBI had been demanding proforma statements from the banks and NBFCs for a few quarters already. And these firms had been submitting them to the regulator since October 2017. Given this runway for change, RBI's silence on NBFCs or indeed the reason for deferment of the deadline for banks is confounding.

RBI's official reason for deferring the changeover for banks -- the need for amendment of the Banking Regulation Act -- is not applicable for the NBFCs. "So technically, they can't say that NBFCs are not transitioning," says Keyur Dave, Partner and National Leader Accounting Advisory, BDO.

NBFCs and banks have the same nature of business though for legal and for risk management purposes the two are split. In the present case, if NBFCs go ahead with the implementation of Ind-AS and banks don't then the chances of disputes rise due to the non comparability of credit reports of the borrowers by the two sectors, says Dave.

As it seems, banks will continue with a rule-based provisioning for another year, while NBFCs will follow the more punishing Expected Credit Loss (ECL) model.

The risk assessment of a single borrower under these disparate models can lead to major snafus.

Scenario under the Companies Act, 2013

As per the notification dated February 16, 2015 issued by MCA on the Companies (Indian Accounting Standards) Rules, 2015 which deals with the applicability of the Ind-AS, the obligation to comply with the same was applicable to:

1. Any company who wants to comply voluntarily with the Ind-AS for the accounting periods beginning on or after April 1, 2015, with the comparatives for the periods ending on March 31, 2015, or thereafter.

2. The following companies were notified to mandatorily comply with Ind-AS for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

- a. Companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore (Rs. 500 crore) or more.
- b. Unlisted companies having net worth of rupees five hundred crore (Rs. 500 crore) or more.
- c. Holding, subsidiary, joint venture or associate companies of companies referred above in (a) and (b) of clause (2).

3. The following companies were notified to mandatorily comply with Ind-AS for the accounting periods beginning on or after 1st April, 2017, with the comparatives for the periods ending on 31st March, 2017, or thereafter, namely:-

Applicability of Ind-AS on NBFCs

- a. Companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore (Rs. 500 crore).
- b. Unlisted companies having net worth less than rupees five hundred crore (Rs. 500 crore).
- c. Holding, subsidiary, joint venture or associate companies of companies referred above in (a) and (b) of clause (3).

4. The following companies have been exempted from applicability of the Ind-AS being:

- a. Companies whose securities are listed or are in the process of being listed on SME exchange as referred to in Chapter XB.
- b. Companies whose securities are listed or are in the process of being listed on Institutional Trading Platform without initial public offering in accordance with the provisions of Chapter XC of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.

However, pursuant to the first proviso to Rule 4 (1) of the said Rules, such class of companies may comply with the Ind-AS voluntarily.

5. The following companies have been exempted from compliance both voluntarily and mandatorily, namely:

- a. Insurance companies
- b. Banking companies, and

c. Non-banking financial companies.

However, MCA on March 30, 2016 came up with amendment in the above rules so as to increase the scope of applicability of Ind-AS to certain entities by way of Companies (Indian Accounting Standard) Amendment Rules, 2016. Pursuant to the same, sub-rule (1) in rule (4) has been inserted to include NBFCs as well within the fold of Ind-AS. NBFC in the said notification has been defined as:

“Non-Banking Financial Company” means a Non-Banking Financial Company as defined in clause (f) of section 45-I of the Reserve Bank of India Act, 1934 and includes Housing Finance Companies, Merchant Banking companies, Micro Finance Companies, Mutual Benefit Companies, Venture Capital Fund Companies, Stock Broker or Sub-Broker Companies, Nidhi Companies, Chit Companies, Securitisation and Reconstruction Companies, Mortgage Guarantee Companies, Pension Fund Companies, Asset Management Companies and Core Investment Companies.

Accordingly Ind-AS has been made applicable on the following class of NBFCs in phases, wherein NBFCs shall comply with the Ind-AS in preparation of their financial statements for:

Applicability of Schedule III for companies complying with Ind-AS

As per the notification no. G.S.R. 365 (E) dated April 6, 2016 issued by the MCA necessary amendments have been brought in Schedule III wherein the said Schedule has been divided into division I and division II. **Division I** deals with the companies who are required to prepare financial statements as per the Companies (Accounting Standards) Rules, 2006. That is to say, there is no change for those companies in the format of Schedule III on whom the Accounting Standards apply as per the Rules 2006. While **Division II** deals with the companies who are required to prepare financial statements as per the Companies (Indian Accounting Standards) Rules, 2015. That is to say, Schedule III now prescribes a new format for preparation of financial statements for those companies which are to comply with the Indian Accounting Standards.

Applicability of the new Schedule III

Considering that the NBFCs are coming within the purview of compliance of Ind-AS from April 01, 2018, it is only from April 01, 2017 that the NBFCs will have to prepare the financial statements in accordance with the revised Schedule III for the purpose of comparative statements for the FY starting April 01, 2018.

Conclusion

Financial statements will now be prepared in two formats by two separate class of companies, i.e. on whom the Accounting Standard Rules 2006 are applicable and on those whom Indian Accounting Standard Rules 2015 are applicable. NBFCs will accordingly have to follow the format as per Division II of Schedule III in line with the requirement to comply with Ind-AS as per the Amendment Rules, 2016. Thus, all the companies are brought gradually under the ambit of application of Ind-AS and thus Government is moving towards synchronization all financial sectors in preparation of financial statements uniformly all over the world.

References

1. www.ey.com/.../ey...to-ind...banks.../ey-step-up-to-ind-as-for-banks-and-nbfc.pdf accessed on 13.06.2018
2. <https://home.kpmg.com/.../ifrsnotes-ind-as-payments-banks-small-finance-banks.html> accessed on 13.06.2018
3. <https://www.in.kpmg.com/ifrs/files/ifrsnotes-ind-as-payments-banks.pdf> accessed on 13.06.2018

4. vinodkothari.com/wp-content/uploads/.../Applicability_of_Ind-AS_on_NBFCs.pdf accessed on 13.06.2018
5. <https://www.pwc.in/assets/pdfs/.../ifrs/ind-as-roadmap-bank-and-insurance-2016.pdf> accessed on 13.06.2018
6. <https://www2.deloitte.com/.../in-fs-indian-accounting-standards-roadmap-noexp.pdf> accessed on 13.06.2018 .
7. <https://www2.deloitte.com/.../in-fs-indian-accounting-standards-scheduled-commercial...> accessed on 13.06.2018
8. <https://rbidocs.rbi.org.in/.../PDFs/315FCASA0CC665F7400493F8EF53E7679063A14...> accessed on 13.06.2018
9. <https://www.thehindubusinessline.com/.../in...banks-rbi...ind.../article23446515.ece> accessed on 13.06.2018
10. https://www.researchgate.net/.../50315306_IFRS_-_Impact_on_Indian_Banking_Indu... accessed on 13.06.2018.

