JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

Awareness and Implementation of IFRS in the Indian Banking Sector- A study of the perceptions of the Bank Managers

Sonika Suman

Research Scholar

Sido Kanhu Murmu University

Dumka, Jharkhand

Email- sonika.dorado@gmail.com

Abstract

The International Financial Reporting Standards are the results for the standardisation of accounting across the world with a view to creating uniform practices comparable and comprehensible leading to transparency, best practices in governance and protection of the interests of the society in general and the stake holders in particular. India has also accepted these in principles, but they have not been fully or completely absorbed in the Indian accounting practices. The banking sector is controlled by the Reserve bank of India which further follows the direction of the Ministry of Corporate Affairs (MCA). The MCA had notified the implementation of IFRS in the Indian Banking Sector through a circular of the RBI dated August 04, 2016 .One of the specific instructions was the project management where the stake holders were expected to be made aware of the IFRS and the employees were to be trained for the purpose. Most of the literature on IFRS in Indian Banking referred only to the secondary data and no study was reported about the ground practices of the project management relating to the awareness and implementation of IFRS in the banking sector. To fill this research gap, a study was undertaken and this paper is the resulting documentation of the findings of the study. It is extremely surprising that the awareness of the stake holders about IFRS is totally nonexistent and the preparedness for its implementation absent.

Keywords

IFRS, Banking Organizations, Implementation of IFRS.

Introduction

The International Financial Reporting Standards are the results for the standardisation of accounting across the world with a view to creating uniform practices comparable and comprehensible leading to transparency, best practices in governance and protection of the interests of the society in general and the stake holders in particular. Awareness of the standards, their correct and honest implementation are sine qua non for the success of the efforts. These are standards issued by the International Accounting Standards Board, globally accepted and utilized for the presentation of the financial statements. It can be observed that majority of the developed economies have implemented these standards. Approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies, although approximately 90 countries have fully conformed to IFRS as promulgated by the IASB and include a statement acknowledging such conformity in audit reports. In India, some of the corporate that have adopted these standards are IT firms like Wipro, Infosys Technologies and NIIT, automakers like Mahindra & Mahindra and Tata Motors; textile companies like Bombay Dyeing and Pharma firm Dr Reddys Laboratories. These are known global players and they are deriving the advantages arising out of such standardisation. However, these standards are not fully or completely absorbed in the Indian accounting practices. Instead, an amalgam of the standards are found in the Ind AS (Indian Accounting System) which are based on IFRS and significantly converged with the standards as issued by the Board. So far as India is concerned, the IND AS is such new set of 39 standards to fall in line with the global standards. Yet, they cannot be termed as full adoption of IFRS, but a close convergence of the accounting framework. The Reserve bank of India has mandated the applicability of IND AS to all commercial Banks, NBFCs, and Insurance Companies from April 01, 2018 whose net worth is more than or equal to Indian rupees 500 crores. If such convergence takes place, it will be highly beneficial to the economy at large, the industry, the investors, the depositors and the employees. As is said, “There are many beneficiaries of convergence with IFRS such as the economy, investors, industry, professionals etc. **The economy:** It encourages international investing and thereby leads to more capital flows to country’s economy. **Investors:** Investors confidence especially of those who wish to invest outside the country becomes strong when accounting standards used are globally accepted. **Industry:** The industry is able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that the financial statements comply with globally accepted accounting standards. **Professionals:** More opportunities and greater mobility of Indian accounting and auditing professionals to work in different parts of the world.”(A. Vattoli, ‘Benefits of convergence with IFRS’ 2020). In order to bring the best of benefits to the banking sector, the RBI had worked with the consulting and auditing firms like Pricewaterhouse Coopers and KPMG and the Indian Banks’ Association. In this context, Bhavana Doshi of KPMG stated as follows:"Most countries throughout the world, including European countries and the US, are adopting total convergence with IFRS," said Doshi, adding that once the standards are adopted in India, the financial impact of convergence for Indian banks will be significant. Difference will be especially felt in areas related to loan loss provisioning, financial instruments and derivative accounting.(Bhavana Doshi, 2018).

"There is likely to be a significant impact on the financial position and performance of banks, directly affecting key parameters like capital adequacy ratios and outcomes of valuation metrics," (Mahalakshmi Hariharan, 'RBI working on IFRS guidelines for banks', 2008). Thus it is clear that the banking system of India stands to benefit by the convergence of the international financial reporting standards practices in the Indian accounting practices. It can be easily distinguished that the IFRS is an international system adopted by about 144 countries of the world and developed by the international accounting standards board (IASB) while the IND AS is adopted only by India and is developed by the Ministry of Corporate Affairs. The Reserve Bank of India on August 04, 2016 issued the notification regarding the adoption of the accounting standards by all banks and other non-banking financial corporations as per the directions of the Ministry of Corporate Affairs. Yet, it is observed that the banking institutions have not made the proper preparations for the transition of the accounting standards according to the detailed instructions of the Reserve bank of India. Therefore, it is apprehended that "he Reserve Bank of India could push the implementation of Ind-AS — the Indian version of global accounting standards — to fiscal 2023, seeing poor preparedness of banks to make the transition. The new rules are expected to add to the burden of higher capital requirement for banks, especially loan loss provisions. It is estimated that PSU banks would require an additional Rs 1.1 lakh crore to immediately adhere to the accounting rules if implemented. ("RBI may push back rollout of new accounting norms to FY23", Saloni Shukla & Sachin Dave, The Economic Times, Feb 19, 2020). Under these circumstances, an empirical study of the banking sector relating to the awareness and preparedness for the implementation of IFRS in the banking sector is essential and important. Therefore, it was attempted to carry out a pre-test of the banking sector of Dumka city with the following objectives.

Objectives Of The Study

a) To examine the process of implementing IFRS in selected banks in India.
b) To examine the perceived benefits and challenges of implementing IFRS.
c) To understand the issues that affects the stakeholders, especially the depositors.
d) To understand the extend of usage of the IFRS in the system of the select banks under study.

A Brief Review Of Literature

A critical analysis of the financial statements of the Indian Banking industry was carried out and the impact of IFRS on the Indian Banking industry after the implementation of IFRS in 2011was perused.(CAM Firoz et. al, 2011). The implications of Indian accounting standards on banks and financial sector was documented(Yash Jain, 2020). The impact of IFRS was comprehensively studied (S. Dhar, et. al, 2011). The Impact of IFRS Adoption on Key Financial Ratios-An Analysis of Wipro was carried out in another study(P. Gupta et al., 2017). The effect of IFRS on the banking sector of India was studied while the banking regulators were working on the road map.(A. Bansal, 2011).The economic effects of the adoption of IFRS on the Indian banking was emphasised as the future scope (P. Jain, 20110.) It was argued that IFRS adoption has no effect on the value relevance of the book value and net income (Swamynathan and D. Sindhu, 2011). It was also argued that the globalization enhances the significance of the convergence of IFRS in today's scenario (R. Rupa, 2017). The causal effect of the employee perception of the implementation of the international financial reporting standards was also documented. (Lasmin, 2012).Implementing IFRS from the perspective of public sector banks in India was investigated by another study.(RS Dhankar, et al., 2015.) A study showed the important impact on profitability in accordance with NIM(FA Almagtari, et al , 2020). The asymmetry between management and external shareholders and their positive effects were pointed out in a study(P. Dhar, 2014). In all these studies, one important feature was that all studies were fully dependent on the secondary data and no effort had gone into understanding the ground reality through a study utilizing primary data collected from the people who are directed to enforce the adoption of the IFRS convergence as mandated by the Ministry of Corporate Affairs and directions issued by the Reserve bank of India. This study, therefore first of its kind, has attempted to bridge this research gap through a primary study focussing the banks operating in an Indian City selected through a purposive convenient sample because of logistic reasons.

Methodology

Due to the aforesaid logistic reasons, the study was carried out in Jharkhand State of India and in the District of Dumka, which was further limited to the Dumka City. The city has documented the existence of 64 banks as given below (1. Amjora 2. Asanbani, 3. Banskuli, 4. Bara, 5. Bara Kathikund,6. Baramasia, 7. Baratanr, 8. Basmata, 9. Basukinath, 10. Bedia11. Benagaria, 12. Chapakandar, 13. Chiknia, 14. Dalahi, 15.Dangalpara, 16. Danro, 17. Dhankuta, 18.Dighi, 19. Dudhani,20. Dumka (Nagar Parishad), 21. Gadidabli, 22. Gamharia, 23. Gando, 24. Gangwara With Gangwara Arazi, 25. Golbandha, 26. Gopikandar, 27. Guhiajori, 28. Hansdiha, 29. Haripur, 30. Jama, 31. Jardaha, 32. Kalhajhor, 33. Karbindha, 34. Karudih, 35. Kumirdaha, 36. Kurma, 37. Kuskira, 38. Lachhmipur, 39. Madhuban, 40. Maharo, 41. Mahubana, 42. Maluti, 43. Masalia, 44. Masanjor,45.Nawadih, 46. Nonihat, 47. Palojori, 48. Patabari, 49. Raghunathpur, 50. Ramgarh, 51. Ranibahal, 52. Ranighaghar, 53. Ranigram, 54. Rasikpur, 55. Raundhia, 56. Raykanali, 57. Sahra, 58. Saraiyahat, 59. Sarasdanga, 60. Shikaripara 61. Sikaripara, 62. Taljhari, 63. Tharihat, 64. Tilatanr). As these places are far flung, for more cohesive operation of the bank units within the district, the study was confined to the city limits where the number of banks are further reduced to 21 of which 15 are the public sector banks, 4 of the major private sector banks and 1 each a rural bank and cooperative bank. These banks within the Nagar Parishad limits are as follow (Banks in Dumka City: Central Bank of India, Bhagalpur Road, Central Bank of India, Dudhani Chowk,Dena Bank, Dumka Branch, Union Bank of India, Main Road, Dumka, State bank of India, Dumka Bazar, Allahabad bank, Dumka, Bank of Baroda, State Bank of India1, Dumka, Canara bank, Dumka, Sate bank of India2, Punjab National Bank, Dumka, Bank of India, United Bank of India, State Bank of India Main branch. While these are the public sector banks, other major private sector banks are ICICI Bank, Dumka, IDBI Bank, IndusInd Bank and Axis bank. Besides the city has Vananchal Gramin Bank and the Jharkhand State Cooperative Bank.

For a pre-test of the main survey envisaged, all the Branch Managers were selected as the respondents for an interview with the researcher. A pre-designed Interview Schedule was shown to the respondents after seeking interview time with them. The interview schedule had both close ended and open ended questions. The responses received were further subjected to analysis. The analytical results are presented in this paper as below.

Analytical Results and Discussions

The first question in the interview was if the managers are aware of IFRS. Most people skirted the question and 5 percent answered as negative. There was a total indifference and ignorance to the issue among the public sector banks. For a question if the managers think that the stake holders and share holders are aware of IFRS, the response was a total no as if it does not matter at all. For a question if their bank is using IFRS, the SBI managers were able to say that their bank is following it since 2019 and it was the first to adopt. The banks which are not using IFRS, the alternative is the use of Indian accounting standard. When the difference between IFRS and Ind AS was asked, 96 percent could not answer while the rest 4 percent reported that Indian accounting system is the one adopted by the Indian government. There was lack of clarity regarding the appropriate answer. For a question which of the two – IFRS and Ind AS- is more effective, there was no reply from the public sector banks while a major private sector bank reported that Ind AS is more effective. When it was asked whether their banks are following the directions of the RBI, the public sector banks avoided the answer while a major private sector bank stated that the RBI has not adopted IFRS in India. Further, when it was asked which regulation is in use, public sector banks avoided answer while the private sector banks stated as Ind AS. When asked if not following the regulations strictly, where they are strict and where they are flexible, the public sector banks totally ignored the question while the private sector banks said that RBI has not adopted the IFRS. Do you think that IFRS affects the stakeholders and share holders ? was another question. None of the bank mangers had any answer for this question. If so, is IFRS beneficial or harmful to the share and stake holders? was a related further question. The public sector banks answered as beneficial while private sector banks reported as cannot say. When asked "What are the harms or benefits?", the public sector banks answered that capital adequacy, transparency, NPA reduction and the private sector banks answered as "Cannot say". The answer of the public sector bank managers was correct to some extent which only shows the absence of needed emphasis on training of the personnel. To a question what the challenges of IFRS are according to the respondent, the public sector managers responded saying lack of infrastructure, a platform, financial problems and capital loss. The private sector managers answered saying that IFRs is not practiced in India. "Do you think that IFRS will help in enhancing banking administration?" was another question. The public sector was emphatic saying "definitely" while the private sector was unable to decide and said "cannot say". To a question "what are the banking sector reforms you want viz-a-viz IFRS", both the public sector and private sector personnel were unable to answer. To another question "Do you think that IFRS will help reduce the Non-Performing Assets (NPA). If so how, please explain." Both the managers of the public sector and private sector banks were clueless. When they were asked “What are the benefits of IFRS for the employees particularly?” the public sector managers bluntly answered “get it from Google search” while the private sector respondents said that they “cannot say”. When asked “What information you would like me to extract from the Investors, Depositors or Employees?” public sector managers did not answer while the private sector respondents said it is not applicable. Similar was the response of both public sector respondents and private sector respondents when they were posed a question “Can strict implementation of IFRS enhance the Trust of the Depositors, Investors and Employees?”. For another question “Do you think that there is any Distrust among the stakeholders and share holders as of now?”, public sector responders did not answer and private sector again replied as not applicable. The subsequent question “If so, what are they?” could not elicit any answer. For a question “What must be done to enhance the Trust?” also could not elicit any answer. When asked “Do you think that a greater Trust Environment in the Banking sector will promote/strengthen the banking in India?”, the public sector managers did not answer while the private sector managers emphatically replied as “Yes”. For another question “Do you think that we can find out some common areas of acceptance of the Investor, Depositor and Employees Group in relation to IFRS and the Trust it can generate?”, the public sector did not answer while the private sector said “cannot say”. When requested “Please give the information of the Employees, Investors and Depositors: Numbers of each category”, the public sector answer was a suggestion to collect from Google search while the private sector said that it cannot be done due to secrecy clause the banks follow. IDBI bank answered that - for investors : 98 % is owned by GOI and LIC, rest are educational institutions or private sectors, which cannot be disclosed and shared. Lastly, they were asked “Do you think that these stake and stock holders are interested in IFRS implementation in Banks in general and your bank in particular”. The public sector answer was “No reply” while the private sector answered as “People should be made aware about IFRS”. For the open ended question any other information, the public sector answer was “Investors /stakeholders don’t want these kind of transparency, because they will be in loss”. The private sector answer was “India has not adopted IFRS for accounting standards”.

Conclusion

The pre-test was to elicit informed suggestions to launch a primary data collection survey on the stake holders of the banking system like the Employees, Depositors and the Investors. The mangers of the bank units of the public sector and private sector were approached. Except for the two banks –Vananchal Gramin Bank and Jharkhand State Cooperative Banks, which were locked during the period of the survey, all other banks were available. Though it was a purposive sample, for the Dumka Nagarpalika limit, the study was almost a census of all the scheduled commercial banks operating under the Reserve bank of India. The Reserve Bank of India issued a direction to all the commercial banks for the implementation of the accounting standards. The directive communication of the RBI based on the notification of the Ministry of Corporate Affairs of the Government of India, was very clear where it was mentioned as follow: “The directions contained herein are issued under Section 45L of the Reserve Bank of India Act, 1934 and AIFIs shall ensure strict compliance of the same." And the directions were asunder: "The critical issues which need to be addressed in the Ind AS implementation plan include the following: which were given under a, b, c, d and e items. The 'e' item was project management where the banking institutions were expected to "manage the entire process-holistic approach to planning and execution by ensuring that all linkages are established between accounting systems, people and business, besides effective communication strategies to stake holders.". Thus, the current investigation exposes the lack of preparedness of the banking system for the effective implementation of the IFRS and more so it clearly establishes the need for creating awareness among all the stake holders as has been mandated by the Government of India. It may not be out of place to argue that the Indian banking system has not paid the seriousness it requires to implement IFRS in the Banking sector thereby throwing it open to the challenges in the absence of effective implementation of the IFRS.

References

1. A Ladha, P Mankad, Impact of International financing reporting standards ('IFRS') on Indian banks, 2009
2. Bansal -Effect of IFRS in Indian Banking Sector, International Journal of Management Prudence, 2011
3. CAM Firoz, AA Ansari, K Akhtar -IFRS-impact on Indian banking industry International Journal of Business, 2011
4. CAS SWAMYNATHAN, D Sindhu - Convergence to IFRS-an Indian Perspective, CHIEF PATRON, 2011

5. FA Almaqtari, A Hashid, NHS Farhan, An empirical examination of the impact of country-level corporate governance on profitability of Indian banks, Journal of Finance & …, 2020 - Wiley
6. GS Reddy, R Desai, Explanatory Process for Adoption of IFRS in Indian Banks. IUP Journal of Accounting Research & …, 2015 - search.ebscohost.com
7. KK. Das, P Panda, S Mishra, Impact of IFRS adoption on reporting of firm efficiency: case of Indian IT firms, ojcoca.org.
8. KS HAMEEDI, QA AL-FATLAWI, MN ALI, Financial Performance Reporting, IFRS Implementation, and Accounting Information: Evidence from Iraqi Banking Sector, The Journal of Asian …, 2021 - koreascience.or.kr
9. P Athma, N Rajyalaxmi, ACCOUNTING STANDARDS IN INDIA: ADOPTION OF IFRS.Journal of Commerce & Accounting …, 2013 - search.ebscohost.com
10. P DHAR, International Journal of Research in …, 2014 - search.ebscohost.com.
11. P. Gupta, J Akhter, B Chaklader -The Impact of IFRS Adoption on Key Financial Ratios-An Analysis of Wipro, Imperial Journal 2017 .
12. P. Jain, IFRS implementation in India: Opportunities and challenges, World Journal of Social Sciences, 2011 .
13. R. Rupa, IFRS: Impact on Indian banks, researchgate.net.
14. RS. Dhankar, B Chakladerb, A Gupta, Implementing IFRS from the perspective of public sector banks in India **2015 - repo.uum.edu.myLasmin, (2012) .**
15. S. Bhatia, A Tripathy, Issues and challenges for Indian Banking Sector due to convergence with IFRS **International Journal of Accounting …, 2018 - inderscienceonline.com.**
16. S Sharma, M Joshi, M Kansal, IFRS adoption challenges in developing economies: an Indian perspective, Managerial Auditing Journal, 2017 - emerald.com.
17. **S. Thappa**, IFRSs in Indian Banking Industry-Challenges Ahead **2013 - academia.edu.**
18. T. Rudra, CAD Bhattacharjee, Does IFRs influence earnings management? Evidence from India, Journal of Management, 2012 .
19. QI Area, Accounting Globalization: Issues and Challenges of IFRS Implementation in Indian Banks, 2012 .