

CONVERGENCE OF ACCOUNTING STANDARDS WITH IFRS
FICCI CALL TO DEFER COMPLIANCE DATE OF IFRS FROM APRIL 1, 2011;
COMPANIES NEED TIME TO DEAL WITH PROPOSED CONCEPTS & STANDARDS

NEW DELHI, December 27, 2010. FICCI has urged the Government to defer the date of implementation of compliance with IFRS (International Financial Reporting Standards) by India Inc. from April 1, 2011 to a date when companies are better equipped to deal with the new envisaged accounting concepts and standards.

In a representation to Ministry of Corporate Affairs, describing the current deadline of April 1, 2011 for compliance with IFRS standards as “highly unworkable and unfair”, FICCI has pointed out that at the current juncture, global standards themselves are up for revision. Some of the changes being made in IFRS include:

- i. Entire financial instruments (viz. derivatives, loans, and investments) accounting and reporting framework is getting revamped with effect from 1st April, 2013
- ii. IFRS / IAS Standard 12 on Accounting for Income taxes is being revised and revised standards is in exposure draft stage
- iii. IFRS / IAS Standard 18 on Revenue Recognition is being revised and revised standards is in exposure draft stage
- iv. IFRS / IAS Standard 19 on Accounting for Employee Benefits is being considered by International Accounting Standards Board for comprehensive revision

In view of this and the lack of clarity on issues such as whether preparation of financial statements will be as per IFRS model or Schedule VI of Companies Act and applicable taxation regime after implementation of IFRS, FICCI has questioned the practicality for Indian companies to incur substantial IT and manpower training cost and change over to present IFRS when several important parts of it are already pronounced obsolete by IFRS standard setters themselves. A more rational approach, the chamber has suggested, would be to adopt the final standards as and when announced.

FICCI has noted that the new Companies Bill is pending finalization, as is the Draft Tax Code. This would also impact the industry as it will have to grapple with so many issues simultaneously.

Further, there is lack of alignment between Companies law and IFRS. Also there seems to be some thinking on asking companies to prepare dual set of financial statements, one as per erstwhile Indian GAAP and another as per IFRS. This would lead to immense confusion and increase the hardship and cost for these companies. Moreover, adoption of IFRS requires a

lot of preparatory work for companies in terms of comprehending, training and modification of software and IT systems.

FICCI has therefore suggested deferring the implementation date of 1st April, 2011 to a date when India Inc. is better equipped to deal with the new envisaged accounting concepts and standards. It has suggested that the Converged Accounting Standards be made available in the public domain not later than quarter of April - June 2011 and Industry be provided at least one year's preparatory time from the date when the harmonised, notified and legislated converged Accounting Standards and other related matters (such as Tax, Companies Bill, SEBI disclosure, etc.) are in place. Without this, not only will India Inc be unable to make a smooth or intended transition to a new accounting system, such introduction at this stage shall be counterproductive.

In this context, a point that merits serious attention is that US Securities Exchange Commission (US SEC) in its Press Release has categorically stated that they will adopt IFRS only after 2015 after full development of IFRS standards and their Companies are given sufficient time to prepare for the change. The relevant extract reproduced below highlights the cautious, fair and industry protective approach followed by U.S. and issues considered by US SEC (It is relevant to point out that many of these issues apply to India as well):

"...the Commission's statement indicates that it is important to carefully consider and deliberate whether such a change is in the best interest of U.S. investors and markets.

"Commenters on the Proposed Roadmap also expressed a view that U.S. companies would need approximately a four- to five-year timeframe to successfully implement a change in their financial reporting systems to incorporate IFRS. Therefore, if the Commission determines in 2011 to incorporate IFRS into the U.S. financial reporting system, the first time that U.S. companies would report under such a system would be no earlier than 2015. The Work Plan would further evaluate this timeline."

The rationale for immediate implementation of IFRS is that investors in developed economies should understand the financials statements of Indian companies. In actual fact, the largest investors, i.e. U.S. and Japan are not on IFRS and will adopt IFRS only after 2015. Thus, it is unfair to expect investors in US and Japan to understand IFRS when their own countries have deferred the implementation of IFRS so that their companies and investors do not face undue hardship.

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