



“BANKS’ MIGRATION TO IND AS WOULD BE DAUNTING”

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Abstract

All scheduled commercial banks have to adopt Indian Accounting Standards (Ind AS) in the preparation of consolidated and individual financial statements for accounting periods commencing from April 1, 2018. Notably, the scheduled commercial banks can apply Ind AS only if they meet the specified criteria. They cannot voluntarily adopt Ind AS, in other words. An analysis of the primary data collected from the respondents has convinced the researcher that banks have to willy-nilly apply Ind AS retrospectively, which, frankly speaking, is a daunting task in the Indian milieu. In particular, the application of Ind AS 109 will turn out to be a tough nut to crack given the provisions of the Ind AS 109, at least from the Indian perspective. The researcher concludes it is not the right time to implement AS 109 given the crisis the banking industry is going through in the country. Even if the right time arrives sooner, the Indian banking industry will find it difficult to implement AS 109. It is ridiculous to assume that the country’s banking industry will be in a position to access the resources required to implement AS 109 on April 1, 2018! It is time the powers that be realised that they are overambitious and deferred the implementation of AS 109 until such time as the appropriate infrastructure is available uninterruptedly to the industry players. Further, it is perhaps presupposed by the powers that be that reliable data and bank-friendly credit models are within easy reach of the industry players. This is patently untrue. Given the subjectivity embedded in Ind AS 109 and the absence of the infrastructure required to enforce Ind AS, the researcher strongly recommends that the implementation of Ind AS 109 be deferred until such time as all the stakeholders associated with the banking industry are fully convinced that they are ready to implement and / or oversee the implementation of Ind AS 109.

Keywords: *Credit Loss; IFRS; Ind AS; Migration; Objectivity; Subjectivity; Transition.*

1.1 Theoretical Background of the Topic

In India, Accounting Standards are laid down by the Council of the ICAI through its Accounting Standards Board. The Accounting Standards are then examined by the National Advisory Committee on Accounting Standards (NACAS) of the Ministry of Corporate Affairs, Government of India (GoI). It recommends the Standards to the government of India for notifying them under the Companies Act. GoI, on accepting the recommendation of the Committee, notifies the Standards under the Companies Act by publishing them in the Gazette of India. Upon such notification, the standards acquire authority under the law.

In line with its undertaking at the G20 summit held in Pittsburgh in 2009 to converge its existing accounting standards with the IFRS, the Ministry of Corporate Affairs, in 2010, released a roadmap for the convergence of the prevailing accounting standards with IFRS, for companies. However, it kept banking companies, insurance companies and NBFCs out of the roadmap. The roadmap suggested two separate sets of standards under Section 211(3C) of the Companies Act: one set comprised of the standards newly converged with the IFRS. It would apply to certain classes of companies from the date specified in the roadmap called Ind AS; the second, comprised of the existing accounting standards, would apply to unlisted entities having a net worth of less than INR. 500 crores and small and medium companies.

In March 2010, the Ministry of Corporate Affairs issued a roadmap for the convergence of accounting standards for Banking Companies, Insurance Companies and NBFCs. The Ministry of Corporate Affairs, in 2011, placed 35 Ind ASs converged with the IFRS, on its website, without specifying when they should be implemented. Consequently, the companies targeted by the initial roadmap of 2010 did not implement them. The same accounting standards remained in force for companies after the enactment and subsequent notification of the Companies Act 2013. Subsequently, ICAI recommended four more Ind AS. In 2015, these accounting standards were notified by the Ministry of Corporate Affairs under the Companies (Indian Accounting Standards) Rules 2015, under section 133 of the Companies Act, 2013. The rules laid down the roadmap relating to the adoption of Ind ASs by companies, but kept the banking companies, insurance companies and NBFCs out of their purview. The main reason for leaving out the adoption of Ind AS by banks, insurance companies and NBFCs was the delay in the finalisation of IFRS 9, relating to financial instruments. However, it was issued by the IASB, the International Accounting Standards Board, in July 2014.

To ensure the systemic convergence of financial reporting standards obtaining in Indian banking companies, insurance companies and non-banking financial companies with those accepted globally, the Indian government, through a press release dated Jan 18, 2016 came out with the roadmap for the adoption of Indian Accounting Standards (Ind AS) by these companies. Accordingly, the scheduled commercial banks and insurance companies are required to switch over to the Ind AS, barring some carve-outs, from April 1, 2018.



1.2 Statement of the Problem

The implications of the switch-over the scheduled commercial banks are required to make are far-reaching and significant for the country's banking industry, to say the least. Consequently it becomes necessary to ascertain how the switch-over will impact the scheduled commercial banks of the country, particularly in the backdrop of the country's banking industry going through one of its worst phases, post nationalisation. It is this problem that needs to be addressed.

1.3 Review of Literature

1. Implementing Ind AS is likely to affect the key performance metrics of the scheduled commercial banks (PricewaterhouseCoopers Private Limited, 2016). Serious communication with the board of directors, shareholders and other stakeholders would be well-advised, in the circumstances. Internally, Ind AS implementation can affect the banks' processes, systems, controls, income tax outflows and contractual arrangements. For successful Ind AS implementation, banks have to conduct a thorough strategic assessment, put in place a robust step-by-step plan, align their resources and training programmes and enhance their project management skills. To top it all, they have to ensure a smooth integration of the various changes into their day-to-day business operations.
2. Deepak Patel, quoting accounting and audit experts, says that among the foremost challenges before the financial sector players is the implementation provision under Ind-AS 109 (Deepak, 2016). This warrants recognition of expected credit losses based on forward-looking information in addition to losses actually incurred by the financial sector players. The experts point out that as of now, no accounting norms obtain for the losses actually incurred by the banks. These are provisioned for according to the existing Reserve Bank of India (RBI) guidelines.

1.4 Research Gap

The reviewed literature hits the nail on the head. However, a deeper treatment of the issues involved is called for. It is this gap the present study seeks to bridge.

1.5 Scope of the Present Study

The study confines itself to bank officers and financial consultants based in and around Bangalore city.

1.6 Objectives of the Study

The objectives of the study are to:

1. Ascertain the implications of the mandated switch-over for the scheduled commercial banks.
2. Examine how the migration to Ind AS would impact the scheduled commercial banks.

1.7 Hypothesis Proposed to be tested

The study proposes to test the following hypothesis:

“Application of Ind AS 109 will affect the bottom line of banks which are used to making loss provision only upon impairment of the asset”

1.8 Research Design

1.8.1 Research Methodology

This is a descriptive study, involving investigations and adequate interpretation. Since it is a fact-finding study, data has been collected through personal interviews with the sample respondents. Information so collected from the respondents was documented with the help of structured interview schedules drafted for the purpose.

1.8.2 Sources of Data

Data required for the study has been collected from primary as well as secondary sources. Primary data was collected from the respondents, namely, bank officers and financial consultants.

1.8.3 Sampling Plan

Bank officers and financial consultants represent the sampling universe.

Bank Officers: Given the limited number of bank officers with exposure to IFRS, purposive or judgment sampling under the non-probability method has been deployed. Applying a minimum exposure of ten years to the IFRS space as the criterion, the researcher selected 30 bank officers serving in and around Bangalore city.

Financial Consultants: Given the limited number of financial consultants with exposure to IFRS, purposive or judgment sampling under the non-probability method has been deployed. Applying a minimum exposure of five years to the IFRS space as the criterion, the researcher selected 30 financial consultants practising in and around Bangalore city.



These criteria, according to the Researcher, are the most appropriate ones for the present study. What is important is the typicality and the relevance of the sampling units to the study and not their overall representativeness to the population. Thus it guarantees inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.

1.8.4 Data Collection Instruments

Structured interview schedules were drafted and administered to the respondents for collection of primary data.

The interview schedules featured open questions and closed questions. Open questions were incorporated to identify opinions, ascertain the level of exposure to the topic and seek suggestions.

1.8.5 Data Processing and Analysis Plan

Non-parametric statistical units were used to test the association between qualitative characters. Conclusions were arrived at on the basis of formation of H_0 and H_1 . To be specific, chi-square test was applied to test the association.

1.8.6 Limitations of the Study

Primary data has at times been inferred through frequent topic-oriented discussions with the respondents. This may have influenced the findings of the study insignificantly. The Researcher is however convinced that the findings of the study will not have been affected significantly, though.

1.9 Data Analysis – Bank officers

1.9.1 Implications of the Scheduled Commercial Banks Switching Over to Ind AS from April 1, 2018

According to a government of India (GoI) press release dated January 18, 2016, scheduled commercial banks have to switch over to the Ind AS {the accounting standards which are concordant with the International Financial Reporting Standards (IFRS)}, barring some carve-outs (deviations from IFRS), on April 1, 2018. Hence the researcher sought to know from the respondents, the implications of the mandated switch-over for the scheduled commercial banks. Their replies to the query appear in the following Table.

Table 1: Implications of the scheduled commercial banks switching over to Ind AS from April 1, 2018

Implications	Number of respondents
Retrospective application of Ind AS would be a daunting task for scheduled commercial banks	27
Commercial banks should prepare Ind AS-compliant financial statements for FY 2019 along with comparatives for FY 2018	24
Scheduled commercial banks that do not fall under the mandated roadmap for adopting Ind AS cannot adopt Ind AS voluntarily.	22
Some provisions like Ind AS 109 prescribe subjective criteria.	21

An implication cited by 27 respondents is that retrospective application of Ind AS would be a daunting task for scheduled commercial banks. Commercial banks should prepare Ind AS-compliant financial statements for FY 2019 along with comparatives for FY 2018, according to 24 respondents. Scheduled commercial banks that do not fall under the mandated roadmap for adopting Ind AS cannot adopt Ind AS voluntarily, according to 22 respondents. Some provisions like Ind AS 109 prescribe subjective criteria, according to 21 respondents.

1.9.2 Impact of the migration to Ind AS on scheduled commercial banks

With the respondents citing the implications of the migration to Ind AS for banks, the researcher sought to know from them how the migration would impact the scheduled commercial banks. Their replies to the query appear in the following Table.

Table 2: Impact of the migration to Ind AS on scheduled commercial banks

Impact	Number of respondents
The Indian banking industry simply lacks the infrastructure to implement the data-intensive and expensive Ind AS 109.	29
Application of Ind AS 109 will affect the bottom line of banks which are used to making loss provision only upon impairment of the asset.	27
Shortage of professionals proficient in converging AS will leave the banks inadequately prepared for the switch-over.	25



Although the banks have to adhere to Ind AS from April 1, 2018, the requirement of comparative financials requires adherence from April 1, 2017	23
The initial switch-over to Ind AS will necessitate some adjustments which will have to be offset against the banks' retained earnings	21

By way of impact, 29 respondents cite that the Indian banking industry simply lacks the infrastructure to implement the data-intensive and expensive Ind AS 109. Application of Ind AS 109 will affect the bottom line of banks which are used to making loss provision only upon impairment of the asset, according to 27 respondents. Shortage of professionals proficient in converging AS will leave the banks inadequately prepared for the switch-over, according to 25 respondents. Although the banks have to adhere to Ind AS from April 1, 2018, the requirement of comparative financials requires adherence from April 1, 2017, according to 23 professionals. The initial switch-over to Ind AS will necessitate some adjustments which will have to be offset against the banks' retained earnings, according to 21 respondents.

1.10 Data Analysis – Financial Consultants

1.10.1 Implications of the Scheduled Commercial Banks Switching Over to Ind AS from April 1, 2018

According to a government of India (GoI) press release dated January 18, 2016, scheduled commercial banks have to switch over to the Ind AS {the accounting standards which are concordant with the International Financial Reporting Standards (IFRS)}, barring some carve-outs (deviations from IFRS), on April 1, 2018. Hence the researcher sought to know from the respondents, the implications of the mandated switch-over for the scheduled commercial banks. Their replies to the query appear in the following Table.

Table 3: Implications of the scheduled commercial banks switching over to Ind AS from April 1, 2018

Implications	Number of respondents
Retrospective application of Ind AS would be a daunting task for scheduled commercial banks	29
Some provisions like Ind AS 109 prescribe subjective criteria.	29
Commercial banks should prepare Ind AS-compliant financial statements for FY 2019 along with comparatives for FY 2018	28
Scheduled commercial banks that do not fall under the mandated roadmap for adopting Ind AS cannot adopt Ind AS voluntarily.	25

An implication cited by 29 respondents is that retrospective application of Ind AS would be a daunting task for scheduled commercial banks. Some provisions like Ind AS 109 prescribe subjective criteria, according to 29 respondents. Commercial banks should prepare Ind AS-compliant financial statements for FY 2019 along with comparatives for FY 2018, according to 28 respondents. Scheduled commercial banks that do not fall under the mandated roadmap for adopting Ind AS cannot adopt Ind AS voluntarily, according to 25 respondents.

1.10.2 Impact of the Migration to Ind AS on Scheduled Commercial Banks

With the respondents citing the implications of the migration to Ind AS for banks, the researcher sought to know from them how the migration would impact the scheduled commercial banks. Their replies to the query appear in the following Table.

Table 4: Impact of the Migration to Ind AS on Scheduled Commercial Banks

Impact	Number of respondents
The Indian banking industry simply lacks the infrastructure to implement the data-intensive and expensive Ind AS 109.	29
Although the banks have to adhere to Ind AS from April 1, 2018, the requirement of comparative financials requires adherence from April 1, 2017	29
The initial switch-over to Ind AS will necessitate some adjustments which will have to be offset against the banks' retained earnings	29
Application of Ind AS 109 will affect the bottom line of banks which are used to making loss provision only upon impairment of the asset.	28
Shortage of professionals proficient in converging AS will leave the banks inadequately prepared for the switch-over.	27



By way of impact, 29 respondents cite that the Indian banking industry simply lacks the infrastructure to implement the data-intensive and expensive Ind AS 109. Although the banks have to adhere to Ind AS from April 1, 2018, the requirement of comparative financials requires adherence from April 1, 2017. The initial switch-over to Ind AS will necessitate some adjustments which will have to be offset against the banks' retained earnings. Application of Ind AS 109 will affect the bottom line of banks which are used to making loss provision only upon impairment of the asset, according to 28 respondents. Shortage of professionals proficient in converging AS will leave the banks inadequately prepared for the switch-over, according to 27 respondents.

1.11 Summary of Findings

In the following paragraphs, a summarised version of the findings arrived at in respect of the two categories of respondents, namely bank officers and financial consultants is furnished.

1.11.1 Bank Officers

1. An implication cited by 27 respondents is that retrospective application of Ind AS would be a daunting task for scheduled commercial banks. Commercial banks should prepare Ind AS-compliant financial statements for FY 2019 along with comparatives for FY 2018, according to 24 respondents. Scheduled commercial banks that do not fall under the mandated roadmap for adopting Ind AS cannot adopt Ind AS voluntarily, according to 22 respondents. Some provisions like Ind AS 109 prescribe subjective criteria, according to 21 respondents.
2. By way of impact, 29 respondents cite that the Indian banking industry simply lacks the infrastructure to implement the data-intensive and expensive Ind AS 109. Application of Ind AS 109 will affect the bottom line of banks which are used to making loss provision only upon impairment of the asset, according to 27 respondents. Shortage of professionals proficient in converging AS will leave the banks inadequately prepared for the switch-over, according to 25 respondents. Although the banks have to adhere to Ind AS from April 1, 2018, the requirement of comparative financials requires adherence from April 1, 2017, according to 23 professionals. The initial switch-over to Ind AS will necessitate some adjustments which will have to be offset against the banks' retained earnings, according to 21 respondents.

1.11.2 Financial Consultants

3. An implication cited by 29 respondents is that retrospective application of Ind AS would be a daunting task for scheduled commercial banks. Some provisions like Ind AS 109 prescribe subjective criteria, according to 29 respondents. Commercial banks should prepare Ind AS-compliant financial statements for FY 2019 along with comparatives for FY 2018, according to 28 respondents. Scheduled commercial banks that do not fall under the mandated roadmap for adopting Ind AS cannot adopt Ind AS voluntarily, according to 25 respondents.
4. By way of impact, 29 respondents cite that the Indian banking industry simply lacks the infrastructure to implement the data-intensive and expensive Ind AS 109. Although the banks have to adhere to Ind AS from April 1, 2018, the requirement of comparative financials requires adherence from April 1, 2017. The initial switch-over to Ind AS will necessitate some adjustments which will have to be offset against the banks' retained earnings. Application of Ind AS 109 will affect the bottom line of banks which are used to making loss provision only upon impairment of the asset, according to 28 respondents. Shortage of professionals proficient in converging AS will leave the banks inadequately prepared for the switch-over, according to 27 respondents.

1.12 Conclusions

Conclusions are inferences / generalisations drawn from the findings. They relate to the hypotheses. They are answers to the research questions or the statements of acceptance or rejection of hypotheses.

As explained in a previous paragraph, the study proposes to test the following hypothesis:

“Application of Ind AS 109 will affect the bottom line of banks which are used to making loss provision only upon impairment of the asset.”

Hence H_0 and H_1 are as follows:

H_0 : “Application of Ind AS 109 will not affect the bottom line of banks which are used to making loss provision only upon impairment of the asset.”

H_1 : “Application of Ind AS 109 will affect the bottom line of banks which are used to making loss provision only upon impairment of the asset.”

On the basis of the primary data collected from the respondents, vide Tables: 2 and 4, a chi-square test was applied to ascertain the association, if any, between the two variables. The following Table reveals the computation made using MS-Excel:



Category	Observed Values		
	Yes	No	Total
Bank officer	27	3	30
Financial consultant	28	2	30
Total	55	5	60
Expected Values			
Category	Yes	No	Total
Bank officer	27.5	2.5	30
Financial consultant	27.5	2.5	30
Total	55	5	60
	Agree	Disagree	
o-e	-0.5000	0.5000	
	0.5000	-0.5000	
(o-e) ²	0.2500	0.2500	
	0.2500	0.2500	
((o-e) ²)/e	0.0091	0.1000	
	0.0091	0.1000	
CV	0.0182	0.2000	0.2182
TV			3.8415
p			0.9945

The calculated value of t^2 is 0.2182, lower than the table value of 3.8415 for an alpha of 0.05 at one degree of freedom. Hence the null hypothesis is accepted. $p=0.9945$ is the inverse of the one-tailed probability of the chi-squared distribution.

1.13 Researcher's Recommendations

1. Commercial banks should necessary prepare Ind AS-compliant financial statements for FY 2019 along with comparatives for FY 2018. This amounts to the government mandating the said banks to prepare the Ind AS-compliant financial statements for FY 2018 too. Unless this is done, comparatives for FY 2018 cannot be arrived at. In other words, this amounts to retrospective application of Ind AS which frankly speaking is a daunting task as explained in the following paragraphs.
2. Scheduled commercial banks can apply Indian Accounting Standards (Ind AS) only if they meet the prescribed criteria. They cannot embrace them voluntarily. This may sound paradoxical but when viewed against the nature of the banking industry, sounds perfectly reasonable. After all, an orderly and phased transition is called for to preclude abrupt shocks that could harm data integrity of banks. It pays to err on the side of caution.
3. This definitely is not the right time to implement Ind AS 109 given the crisis the banking industry is going through presently in the country. Even if the right time arrives hopefully sooner rather than later, the Indian banking industry will find it difficult to implement Ind AS 109. The reason is fairly straightforward: presupposing that the country's banking industry will be in a position to access the resources required to implement Ind AS 109 is ridiculous, to say the least. It is better that the powers that be realised that they are overambitious and deferred the implementation of Ind AS 109 until such time as the appropriate infrastructure is available uninterruptedly to the industry players. Ind AS 109 calls for a paradigm shift in the treatment of impaired assets by banks. Presently, the players treat impaired assets in line with IAS 39 which requires that loan provisions be made upon the occurrence of impairment. Ind AS 109, on the other hand, expects the players to anticipate credit loss based on forward-looking information. This requires reliable data and bank-friendly credit models, both clearly beyond the reach of the leading players in the country's banking industry! It is time the powers that be realised that haste makes waste and followed a down-to-earth approach in the matter. The very nature of Ind AS 109 permits some subjectivity and in the absence of the required infrastructure, the subjectivity is bound to increase!

1.14 References

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