

MARKETS IN MOTION

developments that matter in financial markets

IFRS and India

"The next revolution after the software revolution will be in the world of accountancy with the convergence of IFRS where we would be contributing the best and largest number of young Accountants."

Salman Khurshid, Union Minister for Corporate Affairs

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For details, contact:
Ms Meena Kulkarni
Tel: +91 22 6731 8842
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A Change for the Better

The convergence of accounting standards towards IFRS is gaining momentum across the globe and accounting bodies such as the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have already initiated the groundwork on converging International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Standards (GAAP). The boards for standards the world over have set their own timetable for adapting IFRS and more and more countries have agreed to adopt the new standards as their national accounting standards in the future. Internationally, in so far as cross-border investments are concerned, a non-IFRS compliant country is perceived as an additional risk factor.

Many countries have recognized the need for convergence of accounting standards and are moving towards its implementation whilst others are more passive in their approach, perhaps having issues too complex to resolve or have not comprehended the importance of IFRS. The timeline for the convergence of select countries, including India, with IFRS is given below.

Timeline for Adoption of IFRS

Country		Target Date For Convergence To IFRS
Brazil		2010
Russia		Limited adoption in initial phase
India	Companies with networth of Rs 1,000 crore and those which are part of BSE Sensex, NIFTY and companies listed in overseas exchanges	April 2011
India	All companies with a networth between Rs 500 – Rs 1,000 crore	April 2013
India	Banks and Non-Banking Finance Companies	April 2013
India	All listed companies with a networth of Rs 500 crore or less	April 2014
China	Keen but has reservations on some aspects	No date set
Canada		2011
Japan		2011
Malaysia		2012
United Kingdom		2012
United States of America		2014 - 15

A majority of countries will have adopted the standards and many will be at different levels of adoption by the end of the financial year 2010-11.

Convergence with IFRS – Implications

Currently, there is some divergence of the Indian Accounting Standards from IFRS. A few of them is illustrated below: Current investments are valued at lower of the cost or fair value under Indian Accounting Standard 13. After implementation of IFRS, they are to be calculated at fair value only. Similarly, there are only a few minor differences with the corresponding Indian Accounting Standards with respect to IAS-2 Inventories, IAS-7 Cash Flow Statements, IAS-20 Accounting for Government Grants and Disclosure of Government Assistance, AS-33 Earnings per Share, AS-36 Impairment of Assets, AS-38 Intangible Assets, etc. So, it is easier for Indian companies to have a smooth and successful transition to IFRS.

Need for IFRS

Level of Confidence: The key benefit will be a common accounting system that is perceived as stable, transparent, and fair to investors across the world, whether local or foreign.

Risk Evaluation: IFRS will eliminate barriers to cross-border listings and will be beneficial for investors who generally ascribe a risk premium if the underlying financial information is not prepared in accordance with international standards.

Merger & Takeover Activity: Cross-border mergers and acquisitions will get a boost by making it easier for the parties involved in as far as redrawing the financial statements is concerned.

Investments: Foreign investors will be attracted to economies where IFRS-compliant financial statements are the norm.

Conclusion

Though the timeline for the convergence of India's GAAP with IFRS is April 1, 2011, companies started adopting the standards from FY10 itself so that comparative figures would be available for disclosure in the annual report. A successful transition requires a well-thought-of plan and hopefully well in advance. Many large listed companies have already moved on to the new standards and those that are in transition must be actively incorporating the change, especially in the beginning of the new financial year.

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Exchange Square, 1st Floor, Suren Road,
Chakala, Andheri (East), Mumbai - 400093, India.
Tel: +91 22 6731 8888 - Fax: +91 22 6726 9541
Email: marketinmotion@ftkmc.com • Website : www.ftkmc.com

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knowledgeformarkets@ftkmc.com
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