Global Convergence of Harmonization of Indian GAAP with IFRS & US GAAP

D.S. Rawat
FCA
BANSAL & CO.
Accounting Standards

Accounting standards are the policy documents relating to various aspects of measurement, treatment, presentation and disclosure of accounting transactions and events.
In India, the Institute of Chartered Accountants of India (ICAI), being the premier accounting body in the country, has been formulating Accounting Standards since 1977.

The ICAI follows a consultative process in the formulation of accounting standards which ensures participation of all interest groups through Accounting Standards Board (ASB).

Following the above process, the ICAI has issued 29 Accounting Standards till date. Out of these Standards, one Standard, viz., AS 8, has been withdrawn pursuant to AS 26 becoming mandatory.
Standard-Setting: Process Followed

IFRS

- IFRS are issued by International Accounting Standard Board (IASB).
- The International Accounting Standard Board (IASB) based in London.
- The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements.
- IFRSs are developed through a formal system of due process and broad international consultation.
Standard-Setting: Process Followed
US GAAP

- In US, the legalistic and litigious nature of the business environment has led to a style of accounting standards and supporting guidance that is rule-driven.
- A rule for almost every circumstance. Even then the standards written in terms of broad principles, interpretations are written that have the effect of fencing the principles with rule.
- Because of federal character of US Govt. there are multiples accounting and other bodies making accounting statements and pronouncements.
- Under such circumstances it becomes difficult to find the accounting pronouncement, can be called US GAAP.
- Financial Accounting Standard Board (FASB) is the main body which formulates the US GAAP.
Legal Recognition in India
Legal Recognition of Accounting Standards

- Till 1999, there was no requirement for the companies to comply with accounting standards.
- The accounting standards issued by the ICAI were mandatory only for its members.
- In 1999, recognising the role of accounting standards in economic development and good governance, an amendment was made in the Companies Act, 1956 to require all companies to follow accounting standards.
- The Amendment also contained a proviso that until the accounting standards are notified by the Government under the Act, the Accounting Standards specified by the ICAI should be followed.
Legal Recognition

• In line with requirements of the Act, the Government constituted the National Advisory Committee on Accounting Standards (NACAS) to consider and recommend accounting standards issued by the ICAI to the Government for notification under the Act.

• On the recommendations of the NACAS, the Government has notified all the Accounting Standards issued by ICAI, which have come into force in respect of accounting periods commencing on or after 7th December 2006.
Convergence of Accounting Standards
What is Convergence?

Convergence means eliminating the differences between Indian GAAP and IFRS and/or aligning Indian GAAP more closely to IFRS and/or may be even adopting IFRS as it is.
Need for Convergence
Need for Convergence of Accounting Standards

• In the present era of globalisation and liberalisation, the world has become an economic village.
• A number of MNCs are establishing their businesses in various countries.
• The entities are entering in the global markets to fulfil their capital needs.
Need for Convergence

• The enterprises are getting their securities listed on the stock exchanges outside their country. Capital markets are, thus, becoming integrated.

• In such a scenario, there is a need for Financial Reporting Standards which are globally acceptable.

• IASs/IFRSs, issued by the IASB are now being recognised as Global Financial Reporting Standards.

• Keeping this in view, nearly 100 countries currently require or permit the use of, or have a policy of convergence with, IFRSs.
The world is getting smaller

THE MOMENTUM TOWARDS GLOBAL IFRS ADOPTION
More than 100 countries require or permit the use of International Financial Reporting Standards (IFRSs), or are converging with the IASB’s standards.
Convergence with IFRSs in India

• Indian Accounting Standards (ASs) are formulated on the basis of the IFRSs.
• While formulating ASs, ICAI comply IFRSs as far as possible.
• The Preface to the Statements of Accounting Standards, issued by the ICAI, recognises the same.
Convergence with IFRSs in India

• While formulating ASs, the ICAI makes changes from IFRSs only in those cases where these are unavoidable, particularly, considering legal and/or regulatory framework prevailing in the country.

• The NACAS, while reviewing an Accounting Standard, specifically considers deviations, if any, from the corresponding IFRS and reasons therefor.
Convergence with IFRSs in India

- Thus, the Accounting Standards issued by the ICAI and notified by the Government are largely in convergence with IFRSs.
- With a view to further increase the convergence of ASs with IFRSs, the ICAI is formulating certain new ASs as well as it is revising some of the existing ASs.
MoU between the FASB & the IASB was entered after their joint meeting in Sept. 2002

To make their existing financial reporting standards fully compatible as soon as is practical and
Roadmap for Convergences between IFRSs & US GAAP (2002-2008)

- To coordinate their future work program to ensure that once achieved, compatibility is maintained.
- The FASB & the IASB recognise the relevance of the roadmap for the removal of the need for the reconciliation requirement for non-US companies that use IFRSs and are registered in the United States.
The key questions for India

• Should Indian GAAP be converged with IFRS? What are the pros and cons?

• What are the hurdles and impediments in fully converging with IFRS?

• What are the precautions that need to be taken?

• Is there an option or alternative?
IOSCO Requirement

- International Organization for Securities Commission (IOSCO) requires all its constituents to converge to IFRS and therefore departing from IFRS is not a solution.
Challenges
• Shortage of Resources particularly IFRS-trained professionals.

• Heavily loaded with Fair valuation principles.

• There is no IFRS which provides guidance for fair valuation.

• FASB has recently issued SFAS-157. IASB has decided to use the FASB’s Statement as the starting point for developing its own standard.
Reconciliation
Reconciliation of Indian ASs with IFRSs/ IASs

- **IASs** (excluding 12 withdrawn) 29
- **IFRSs** 8
  
  Add: IAS 4 and IAS 25* 2
  
  Total 39

- **Indian ASs** (excluding 1 withdrawn) 28
- Indian ASs under preparation 8
- IAS/IFRS not relevant to India 2
- Guidance Note issued by the ICAI 1
  
  Total 39

*Withdrawn, but included here for reconciliation purposes because corresponding Indian ASs are in force.*
Future Developments
Convergence with IFRSs: Future Developments

• Although Indian Accounting Standards are close to IFRSs recently, a view is being expressed that there should be total convergence with IFRSs in India.

• IASB has also suggested to the ICAI that in order to obtain the benefits of convergence, the ICAI should aim for having total convergence with IFRSs, without any exception. It has offered that the IASB is willing to help the ICAI in this endeavour.
• Keeping in view the above, the ASB of ICAI has constituted a Task Force on convergence with IFRSs.

• The task force will, examine:
  – Various obstacles in achieving full convergence and suggest possible ways to overcome these obstacles, e.g. changes in laws and regulations.
  – Whether IFRSs can be adopted for all entities or for certain classes of entities.
Convergence with IFRSs in India

- Task Force will prepare a Concept Paper on the above aspects which would also include a road map for convergence.
- In other countries also, similar documents were prepared prior to convergence.
- On the basis of the concept paper, the ICAI will take-up the matter with various interest groups.
Convergence with IFRSs in India

We fully appreciate and have the confidence in the role that the ICAI is playing in this regard. Whatever direction the ICAI takes, viz. migrating to IFRS or having a separate Indian GAAP closely aligned to IFRS, there are fundamentally two area which are very crucial-

first, Providing an Infrastructure for uniform interpretation and application of the standards.

Secondly, Strengthening of the training infrastructure to ensure quick dissemination of the standards.