ACCA

Changing the 'I' in IGAAP:

Perspectives on India's transition to IFRS

ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 131,500 members and 362,000 students throughout their careers, providing services through a network of 80 of ces and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities. Our focus is on professional values, ethics, and governance, and we deliver value-added services through our global accountancy partnerships, working closely with multinational and small entities to promote global standards and support.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

Changing the 'I' in IGAAP: Perspectives on India's transition to IFRS, is available in PDF.

The report can be downloaded free of charge from the ACCA website.

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Foreword

India's decision to converge with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) represents an important step towards the goal of truly global accounting standards. India is in good company. More than 100 countries already require or permit the use of IFRS – a number expected to increase to more than 150 within the next few years.

India already plays an increasingly important role in the global economy and many Indian companies occupy significant positions in international capital markets. India's convergence to IFRS will not only help the economy expand further, but will also further the acceptance of IFRS as the global accounting language.

Earlier experiences from jurisdictions that have adopted IFRS show that the move to IFRS for companies requires careful planning. While international businesses have demanded comparability through harmonised financial reporting, such changes bring their own set of challenges. This report offers a timely perspective on how Indian companies are making progress towards transition to IFRS, and what remains to be done.

This report continues the ACCA's long-standing support for global accounting standards, and will provide a useful aid to Indian companies as they implement IFRS.

Sir David Tweedie
Chariman of the International Accounting Standards Board
November 2009

Preface

Following the Council of the Institute of Chartered Accountants of India's decision to adopt IFRS from 1 April 2011, IFRS is set to be an integral part of India's corporate reporting landscape. Much progress has been made to pave the way for a successful transition to IFRS. However questions still abound. How ready is 'India Inc' to implement IFRS? What are the benefits to India from moving to IFRS? How will differences between IFRS and Indian accounting regulations be resolved?

To help answer these questions and understand the current status of IFRS implementation in India, ACCA chaired roundtable events in Mumbai, Delhi and Pune with leading members of the business community. Participants were from various sectors of Indian business including major national and international corporates, multinational financial institutions, leading professional service firms, and significant outsourcing companies.

The results of these discussions clearly indicate significant benefits from IFRS adoption and give insights into how the challenges of IFRS transition can be overcome. It is clear that there is much still to be done and this report brings suggestions of what should be included in a wider roadmap for convergence.

ACCA would like to thank all the participants who gave up their time to offer their frank opinions at the roundtable meetings. It is those views which form the basis of this report and many of the recommendations within it. We would also like to give a special thank you to Get Through Guides for their instrumental role in organising the meetings and the British High Commission for their support in hosting the roundtables.

Executive summary

BACKGROUND

In July 2007, the Council of the Institute of Chartered Accountants of India set a target of adopting International Financial Reporting Standards (IFRS) for all listed, public interest and large-sized entities from accounting periods beginning on or after 1 April 2011. IFRS already forms the basis of accepted accounting principles for companies based in over 100 countries around the world. With other major economies such as Brazil, Canada and Japan set to require their major companies to report under IFRS (or equivalent standards), along with the US paving a road map for convergence, IFRS has cemented itself as the global accounting language of choice.

As businesses increasingly operate and seek to access finance around the globe, international businesses need to be able to communicate their performance through globally comparable and harmonised financial reporting. Indeed, in a 2008 survey conducted by CFO Research Services in collaboration with ACCA,[1] 41% of the 94 Indian CFOs surveyed felt that the 'timetable [for adopting IFRS] should be accelerated because China and other competitors are already reporting using global financial standards'.

With 2011 rapidly approaching, Indian companies and finance professionals are faced with a major change to financial reporting. Experience from other jurisdictions has shown that not only can the financial statements themselves be impacted significantly, but the transition costs related to adopting IFRS can be substantial. In order to ensure as smooth a transition as possible, businesses need to develop detailed strategies and programmes for implementation.

In July 2009, ACCA chaired a series of discussion groups in Delhi, Mumbai and Pune, where a number of leading finance professionals from various sectors of Indian business discussed India's pending transition to IFRS. This paper summarises participants' views on a number of related issues including:

- how companies, and the Indian economy as a whole, will benefit from IFRS
- what progress is being made, by companies and their clients, to prepare for IFRS, and
- the challenges that are being faced to ensure 'India Inc.' is well placed to meet the adoption date and continuing use of IFRS thereafter.

WHAT ARE THE EXPECTED BENEFITS TO INDIA OF ADOPTING IFRS?

Indian companies have already embraced globalisation, as evident in the prominent role they play in the international outsourcing and information technology sectors. Similarly, participants unanimously believed that Indian organisations will not only embrace IFRS, but will flourish through increased global trade and the creation of new knowledge-based business opportunities leveraged from an understanding of IFRS.

From the national economic view, there is a general perception that the increased comparability and transparency in financial reporting of Indian companies will:

- facilitate global investment opportunities, both inbound and outbound
- reduce barriers to entry to global capital markets
- potentially lower cost of capital, and other costs and risks associated with dual filings.

By helping Indian companies themselves to expand, there will also be knock-on effects such as additional revenues for the government, allowing further investment in the infrastructure of the economy as a whole.

For individual businesses and industries, there will be increased opportunities:

- to provide new and enhanced services, especially in the Business Process Outsourcing (BPO) sector and for professional services firms
- for cost savings in education and training, as professionals will only need to maintain understanding of a single accounting regime
- to conduct a comprehensive, once-only review of financial reporting and information systems processes and controls within an organisation.

There is also a resounding perception that reporting under IFRS will benefit management decision-making. The expected transparency in reported figures under IFRS will be more suitable for making strategic decisions.

1. CFO Publishing Corporation, *A Climate of Convergence: India's Road to Global Reporting Standards*, 2008.

WHAT PROGRESS IS BEING MADE TO PREPARE FOR IFRS?

Participants had a clear idea of what their organisations need to achieve by 2011. The discussion groups outlined the most important areas of activity for Indian companies.

While the key elements of a transition programme were readily agreed upon. Participants' views about how much most Indian companies have progressed with such programme varied considerably.

Human resources

the right number and level of expert staff is important both for the professional services firms and corporates. The professional services firms need to be in a position to fulfil their assurance role, as well as being able to offer appropriate technical advice. Corporates need to be in a position to understand the impact of IFRS on the operations of their business as well as financials, and be able to communicate this to internal and external stakeholders.

Systems

In order to achieve the benefits of producing information under IFRS, appropriate IT and information systems will need to be in place to capture and analyse data relevant to IFRS.

Communication

Although there is a need to ensure early consultation with auditors and professional consultants, it is essential for channels to be in place to ensure that investors, analysts and financiers are updated in a timely manner so as to understand the impact of moving from Indian GAAP (IGAAP) to IFRS. Such a major adjustment to corporate reporting requires well thought out change management.

Raising awareness

As IFRS is seen to have a wide impact beyond the finance function, it is important for managers to be made aware of how IFRS may affect their decision-making. Also, it will help ensure that there is high level buy-in to the IFRS strategy.

There is a belief in many companies that management remained ambivalent to IFRS, and this is often reflected in the lack of forward planning in those companies. Where companies have already started implementing a conversion programme, it is because their management had been informed about the implications of IFRS early.

Strategy and assessment

Typically companies (including clients of the professional services firms) that were listed or multi-nationals tended to be more advanced in terms of having strategies in place. Of those, some had set up steering groups to manage the process. These groups had already conducted diagnostics of how IFRS will impact the financial statements and following early buy-in from management, their organisations had heavily invested in IFRS implementation programmes. However, the majority of companies are simply aware of IFRS, but little concrete preparation work has been done.

Up-skilling

Education and training of staff is seen to be the overriding factor in successful implementation. Nonetheless, while management in some companies has evaluated the skills of the internal workforce, and were beginning to train relevant staff through IFRS courses and qualifications, this is not the case in the majority of businesses. There is also a fear that many companies were over relying on external consultants to ultimately manage their conversion process as well as updating staff on key issues relating to IFRS. This is felt to be unsustainable and inef cient in the long-run.

WHAT ARE THE MAIN CHALLENGES OF IFRS ADOPTION?

Although participants indicated that some companies were well advanced when examining most of the key elements fundamental to conversion to IFRS, there was believed to be a general lack of focus in the Indian business community.

This relatively casual attitude appears to reflect a lack of clarity about the transition from regulators. It also hides the fact that there are significant challenges for India in achieving a successful and worthwhile conversion.

Participants noted a number of challenges.

Differences between IFRS and Indian GAAP

While IGAAP has been converging with IFRS as much as possible in recent years, differences still remain, and some of these were viewed as significant challenge to overcome. Participants noted concerns in the following areas.

a) IFRS is more principles based, and therefore more 'liberal' than Indian GAAP. More choice under IFRS will mean the increased need to use professional judgement, and this will require a fundamental change in mindset for Indian accountants.

b) Initial transition will be a challenge given differing recognition and measurement criteria for assets and liabilities. These will not only impact earnings, but it is important to be able to capture those differences through appropriate information systems.

c) Specific accounting areas that will be more complex included business combinations and financial instruments. Many of the problems associated with them arise from the greater use of fair value accounting under IFRS.

Interaction between legislation and accounting
There are concerns about the compatibility of Indian laws with IFRS in certain matters pertaining to accounting, such as formats and presentation requirements. Similarly, there is uncertainty over tax treatments of items arising from convergence such as unrealised gains and losses and the move from a tax basis for depreciation (IGAAP) to one of useful economic life (IFRS).

Education and training
a key challenge is to ensure companies, auditors, regulators and the investment community are appropriately skilled to apply and interpret IFRS.

Efficient financial reporting processes
although many Indian companies have still not thought about the impact on their information systems. These will require a fundamental review and initial costs could be significant. At the same time, it is important to have in place sound systems in order to ensure that subsequent generation of reporting information is ef cient.

RECOMMENDATIONS

It was evident in the discussion groups that there **is** considerable level of ambivalence in the business and professional community around IFRS. This largely stems from the perceived uncertainty over the 2011 transition date.

Some participants believed that this **is** because the government, regulators and standard-setters are frantically looking into many of the issues associated with IFRS adoption in India. It was, however, unanimously agreed that more dialogue with industry and greater transparency about government and regulator thinking on adoption is needed. Although adoption at the earliest opportunity is preferred, most companies will be happy to delay as long as the reasons are communicated openly.

Government, regulators and standard setters – a unified approach
corporate reporting in India is directed by a number of bodies, including the accounting standard-setter (ICAI), regulators (IRDA, RBI and SEBI) as well as through legislation (Companies Act). Together with potential tax implications, this means that IFRS adoption is not simply a matter of companies implementing IFRS instead of Indian Accounting Standards.

In order to assist stakeholders throughout the financial reporting supply chain, and ultimately to bring momentum to the implementation process, participants recommended:

- a stronger lead from key government departments such as the Ministry of Corporate Affairs
- a more coordinated approach from the varying groups of standard setters
- clear and transparent signals from regulators and standard setters as to the transition approach and date, with a detailed and complete roadmap for conversion as soon as possible.

Businesses – managing the process
with the requirement to prepare opening balance sheet numbers for comparative figures using IFRS – effectively 1 April 2010 – the need for assessment and planning is increasingly urgent. In order to ensure that the process runs smoothly, businesses need to:

- assess the impact IFRS will have on their financial results, their information systems and their operations, and then instigate appropriate processes to enable conversion to take place
- communicate, internally and externally, to ensure that there is buy-in from internal stakeholders throughout the organisation and to manage investor relations and expectations as soon as possible.

OUTLOOK: BENEFITTING FROM EXPERIENCE

Participants strongly urged businesses and professional services firms to review transition models in jurisdictions that had already implemented IFRS. There is much knowledge available on how European organisations successfully planned, implemented and communicated their conversion strategies, and these were of considerable value here in India.

Professionals – harnessing knowledge

in order to successfully manage the process, it is vital to have the expertise to assess what the impact of IFRS will have, when compared to IGAAP. Whether it be preparing, auditing, or analysing financial statements under IFRS, the current level of expertise needs to be nurtured and grown significantly. Participants recommended:

- embedding IFRS into the syllabus of professional qualifications and the curriculum of graduate accounting courses
- raising IFRS expertise in qualified and practicing accountants, through focused training sessions and recognised qualifications in IFRS
- focused training and recruitment of specialists for complex areas in IFRS, such as valuation experts to deal with aspects of fair value measurement
- formation of industry-based forums and discussion groups to help raise awareness of key issues, facilitate best practice and to strengthen accounting practices and policies adopted by companies.

OUTLOOK: MOVING IN THE RIGHT DIRECTION

Positive steps are being taken, as revisions to the Companies Act, the new Income Tax Code, and Valuations Act are now in progress. In August 2009, the Indian Ministry of Corporate Affairs also established a group of prominent experts to address implementation challenges related to convergence.

Enabling effective transition to IFRS in India: 8 key action points

1 **Leadership**: the government needs to clearly emphasise the benefits of IFRS, and together with regulators provide a stronger lead in declaring a complete roadmap to convergence to bring momentum to IFRS implementation.

2 **Coordination**: the government and regulators need to work closely and take urgent steps to align regulatory and legislative requirements with those of IFRS.

3 **Preparation**: businesses need to ensure that transition programmes are in place as soon as possible, as the 2011 transition date means comparative figures need to be restated under IFRS. Businesses need to start assessing the impact of IFRS on their organisation in earnest and instigate processes to enable that conversion.

4 **Training**: businesses need to commit resources for IFRS training and development of staff. The training programme has to be led by internal management, with experienced consultants providing expert support.

5 **Communication**: businesses need to communicate their IFRS conversion strategies at an early stage. Internal stakeholders need to understand the impact of IFRS on their business and their buy-in is crucial to forming a workable transition plan. Expectations of external stakeholders need to be managed, as IFRS could have a significant impact on performance measures.

6 **Expertise**: professionals need to develop their skills to meet the specific requirements of IFRS. With the increased use of fair value accounting, there is an acute need for valuation specialists, and clear systems need to be in place to accredit such professionals.

7 **Education**: professional bodies and universities need to be embed IFRS into the syllabus of their professional and university courses, in order to meet the demand for IFRS qualified, professional accountants.

8 **Influence**: professionals from industry and practice need to form working groups to highlight and respond to key issues. These should set objectives of lobbying for national regulatory changes as well as influencing the IFRS standard-setting process.

1. Introduction

IFRS – THE GLOBALLY ACCEPTED ACCOUNTING LANGUAGE

Over the last decade, International Financial Reporting Standards (IFRS) have developed into the primary accounting framework, with widespread acceptance throughout international capital markets. The International Accounting Standards Committee (IASC) was established in 1973, with the agreement of representatives from the professional accounting bodies of nine countries.[1] The IASC's first published standards were IAS1 (1975) *Disclosure of Accounting Policies* and IAS2 (1975) *Valuation and Presentation of Inventories in the Context of the Historical Cost System*. Since 1975, the IASC has morphed into the more familiar International Accounting Standards Board (IASB), with over 100 countries now either requiring or permitting the use of the various standards and interpretations that form IFRS.[2]

Table 1.1: Use of IFRS for domestic listed companies

	Number of countries
Permitted	23
Required for some	5
Required for all	89
	117
Not permitted	35

Source: iasplus.com, Deloittes (August 2009).

The growth of IFRS has been fed by calls for support from groups such as the (then) G7 Finance Ministers and International Monetary Fund, who clearly saw the benefits of a single accounting regime as being an integral part of 'strengthening the international financial architecture'. This objective led the International Organisation of Securities Commissions (IOSCO) to recommend formally that its members accept IASC standards for cross-border offerings and listings, in 2000. Another major coup for IFRS was the announcement by the European Commission that all consolidated financial statements of listed companies in the European Union (effective from 1 January 2005) would have to be prepared using IFRS. Indeed, since that date, not only have those European countries (currently 30 EU/EEA member states) adopted IFRS en masse, but so too have a number of other countries around the world.

OUTLOOK: ALREADY FACING IFRS

With IFRS becoming the standards of choice in markets around the world, many Indian companies, even in advance of conversion to IFRS, already face situations where they have to understand IFRS financial statements. Examples noted by participants included:

- companies that have attempted to acquire an IFRS-reporting target company, have needed to be in a position to interpret the target's current financial position and performance
- companies with foreign, IFRS-reporting parent companies are already producing and reporting IFRS information
- companies with foreign subsidiaries with local statutory IFRS-reporting requirements also need to understand how that information is converted to IGAAP for consolidation purposes
- companies seeking to raise capital in foreign markets have been required or permitted to use IFRS financial information
- multinational companies in industries whose major competitors are reporting under IFRS already attempt to understand and interpret their competitors' current financial position and historical performance.

1. Representatives of professional accounting bodies from Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom / Ireland and the United States signed the agreement.

2. Appendix A lists the current suite of Indian Accounting Standards compared to IASB standards (8 IFRS and 29 IAS) and interpretations (16 IFRICs and 11 SICs) issued to date.

Even the US, still the largest capital market, has now accepted the international support for IFRS. Although it does not permit IFRS for domestic registered issuers, the Securities and Exchange Commission (SEC) now accepts IFRS financial statements filed by foreign private issuers, without reconciliation to US GAAP. In 2008, the SEC proposed a roadmap for the use of IFRS by US issuers, with a number of filers expected to prepare such financial statements as early as 2010/11, with a further and final phased adoption from 2014 to 2016. Given that other major economies, such as Brazil, Canada and India, will also have adopted IFRS well before then, US acceptance will certainly cement the view that IFRS is the globally accepted accounting language.

OUTLOOK: INDIAN COMPANIES IN GOOD COMPANY

Currently, 190 of the Forbes Global 500 companies currently use IFRS, a further 140 use US GAAP, and the remainder use national GAAP. It is estimated that, when other major economies (not including the US) move to IFRS in the next few years, about 310 of those companies will be using IFRS.

INDIA'S ROADMAP TO CONVERGENCE

In line with the momentum around the world for businesses to communicate with their stakeholders and investors in the common language of IFRS, India has also embraced the opportunity to benefit from adopting a global set of accounting standards. In its *Concept Paper on Convergence with IFRSs in India* (CP), the Institute of Chartered Accountants of India (ICAI) established 1 April 2011 as the date of adoption of IFRS in India. Accepting the benefits to the Indian economy, investors, industry and the accounting profession, the CP was developed with the objectives of exploring:

1. the approach for achieving convergence with IFRSs, and

2. the creation of a roadmap for achieving convergence with IFRSs, with a view to making India IFRS-compliant.

For a number of years, the Accounting Standards Board (ASB) of ICAI has aimed at formulating Indian Accounting Standards (AS) that are based on IFRS. As acknowledged in the CP, however, deviations have had to be made in order to ensure compliance and consistency with the legal, regulatory and economic environment, as well as the need to keep in view 'the level of preparedness of the industry and the accounting professionals'. Although the ASB aims to develop a set of IFRS-equivalent Indian Accounting Standards, which necessarily remove these differences, it is clear from our discussions that they do pose a significant challenge. Chapter 4 of this report explores those challenges in greater detail, highlighting in particular the need to resolve the conflicting requirements from regulatory bodies and those that will be required from IFRS-based standards.

IFRS FOR ALL?

Owing to the inherent complexity of IFRS, the CP believes that adoption of IFRS in India will be restricted to public-interest entities. The definition of what is envisaged as a public-interest entity in the CP is a slight modification of the criteria previously used to distinguish 'Level I Enterprises' under existing guidance from the ICAI[3] and as stipulated in the Companies (Accounting Standards) Rules 2006.

Level I Enterprises

The ICAI views a public-interest entity as one that falls into one or more of the following categories.

1. Its equity or debt securities are (or are in the process of being) listed, whether within or outside India.
2. It is a bank or other financial fiduciary, such as a cooperative bank, mutual fund or insurance business.
3. Its turnover (excluding other income) in the immediately preceding accounting period, exceeds Rs.100 crore.[4]
4. Its borrowings, including public deposits, exceeded Rs.25 crore[5] at any time in the immediately preceding accounting period.
5. It is a holding or a subsidiary of an entity covered by any one of the above.

Level II & III Enterprises

The ICAI considers Level II and Level III enterprises to be small and medium-sized entities (SMEs), and that there is a strong case for analysing the IASB's IFRS for SMEs (issued in July 2009) in the context of setting accounting standards for these enterprises. This is not currently on the short term agenda, but will have a considerable impact on the long term future of IGAAP.

MAKING SURE TIME IS ON YOUR SIDE

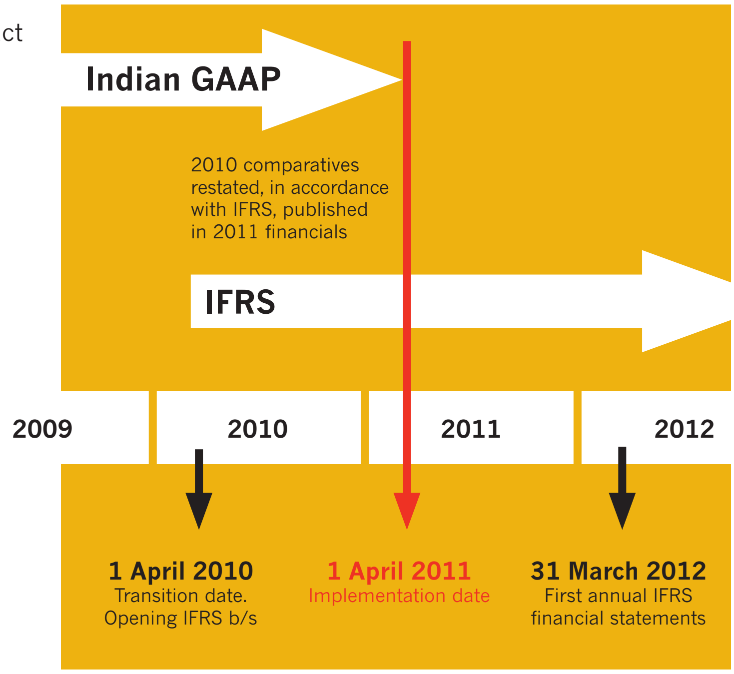
Because the ICAI suggests the adoption of IFRS for public-interest entities from accounting periods beginning on or after 1 April 2011, the timeframe for transition from IGAAP to IFRS should be high on the agenda for India Inc. All stakeholders in the financial reporting supply chain need to ensure, if they have not already, that they have thought about what conversion will entail.

What is evident from the experience in other parts of the world, such as Europe, Australia and Asia, is that conversion projects have often required more time and resources than initially expected. India, in a fortunate position to make the most of those experiences, must ensure that many of the benefits of conversion to IFRS are not eroded by unnecessary costs and complications. An early and coordinated effort from all stakeholders is required to ensure a relatively smooth and ef cient transition.

Preparers, users, regulators, professional accountancy bodies and educators need to be engaged in the planning as well as the implementation of IFRS. The impact of transitioning to IFRS on f nancial reporting should be communicated as early as possible to avoid any potential surprises.

(United Nations Conference on Trade and Development (UNCTAD) Review of Practical Implementation Issues of International Financial Reporting Standards, August 2007)

Figure 1: Timeline for IFRS transition



3. Announcement on 'Applicability of Accounting Standards (with reference to small and medium-sized enterprises)', ICAI, 2003.

4. One crore is equal to 10 million.

5. The 2003 Announcement from the ICAI, uses a threshold of Rs.50crore for turnover, and Rs.10crore for borrowings.

2. The fruits of IFRS

There was a clear consensus from all the round-table groups that the business community in India would benefit considerably from the adoption of IFRS. A number of delegates noted that it was important for India to embrace this aspect of globalisation, just as it had others, such as in the outsourcing and information technology (IT) industries. There was general agreement on some of the more commonly cited macroeconomic gains from adoption of a set of internationally recognised accounting standards. At the same time, and clearly reflecting the micro-perspective arising from where participants worked, there were a far wider range of ways in which individual businesses would benefit.

THE MACROECONOMIC, CAPITAL MARKET PERSPECTIVE

From a macroeconomic perspective it was clear that Indian businesses using IFRS would benefit from using the same financial reporting language as their counterparts around the world. The increased comparability and, as some participants suggested, credibility that this offers is expected to have substantial benefits for capital inflows and outflows. Indian companies will find it easier to raise finances across borders and potentially at a lower cost of capital. The cost of having to convert financial statements from IGAAP for international stock markets was highlighted as still being a major cost.

OUTLOOK: WILL IFRS REDUCE YOUR COMPANY'S COST OF CAPITAL?

In theory, the widespread acceptance of IFRS should mean that Indian companies will be able to seek capital from a broad range of global funding, and with the expected increased competition among global investors and financiers for attractive investments, a strong business should attract a lower cost of capital through:

- using a globally accepted set of accounting standards
- removing any risk premium associated with IGAAP reporting.

As IFRS conversion around the world is still relatively nascent, it is too soon to say categorically whether the anticipated lowering of cost of capital has occurred. Early studies[6] have shown that there has been a positive impact on the cost of capital from adoption of IFRS, but more time is needed to conclude fully on the extent. Nonetheless, given the potential amount of capital raising by Indian businesses, even a slight improvement in interest rates and other transaction terms will have a significant impact on individual businesses.

In parallel, it was strongly argued that the business environment would become more conducive to investment. Both foreign direct investment into India as well as local businesses expanding through mergers and acquisitions (M&A) in international markets would flourish through enhanced comparability. There would be considerably less cost in understanding and evaluating a potential acquisition if the financial statements were in a recognised and similar format.

Indeed, a number of delegates pointed to a trait of IFRS – namely the use of fair value accounting – as being particularly beneficial in the area of M&A and also in the context of the current financial crisis. Although significant concerns were raised about the extensive use of fair value accounting (as discussed later in Chapter 4) in IFRS, it was noted that IFRS reflects the true ('fair') value of acquisitions better than IGAAP currently does.

OUTLOOK: FAIR VALUE VS HISTORICAL COST

IFRS3 requires accounting for net assets taken over in a business combination at fair value, while in IGAAP, under AS 14 *Accounting for Amalgamations*, business combinations are in almost all circumstances recorded at carrying values. Fair values are based on expected future cash flows relating to the assets and liabilities acquired at a specific time, as opposed to historical cost, which records the carrying value of those assets and liabilities at original transaction prices, subject to amortisation and impairment. These costs can therefore be outdated, while levels of depreciation and impairment can be subjective.

6. Lee, Walker and Christensen, *Mandating IFRS: Its Impact on the Cost of Capital in Europe*, ACCA research report 105, ACCA, 2008.

THE MICROECONOMIC, INDIVIDUAL BUSINESS PERSPECTIVE

Participants were equally enthused about the benefits that would accrue to their own organisations and the industries in which they operate.

Counting the opportunities

With the majority of participants being qualified accountants and a number of these representing accounting firms, it was not surprising to hear that there would be considerable opportunities for the accounting profession in particular and the services sector in general. Many accounting firms have strong links with network and associate firms across the globe that have already experienced conversion from local GAAP to IFRS. Access to that knowledge and experience was thought to be critical in ensuring a successful transition – a point noted was that India was at an advantage to other IFRS conversions, including that of Europe, where there had been little practical experience to fall back on.

For many Indian entities that currently have no requirement to produce IFRS accounting information for overseas filing, some of the requirements of IFRS, discussed later in this report, were considered to be a challenge on initial adoption. Participants were again quick to point to fair value requirements in IFRS, and the increasing need for companies to have to revalue their assets on a periodic basis. At the same time, as has been the case in Europe and other jurisdictions that have adopted IFRS, this has allowed accountants to specialise in particular areas and has paved the way for related service specialists, such as actuaries and valuation experts, to develop.

OUTLOOK: BPO TO KPO

There were a number of participants from the BPO sector. They sensed the opportunity for India to establish itself as a hub for global accounting services, just as it had done previously for business process outsourcing (BPO). By focusing on off-shoot services resulting from transition to IFRS, such as valuations and financial statement preparation,, there are great prospects for outsourcing knowledge processes related to accounting requirements, which through IFRS, are becoming increasingly consistent through the world.

The challenge that many noted is servicing this clear demand with the current level of accounting professionals in India, and to ensure the appropriate level of expertise in IFRS is developed, through strong qualifications and training.

Business processing opportunities

Outsourcing companies, thriving in India, already provide significant accounting services to businesses around the world. As the participants pointedly noted, this comes with the need to employ, educate and train staff in different accounting regimes. The fact that US companies still report using US GAAP, and entities in Europe report under national GAAPs and IFRS, while staff employed in India have been trained in IGAAP, means a considerable and continuing investment for such organisations.

In the view of participants from accounting firms, a common reporting language, embedded in the qualifications of would-be accountants, would markedly reduce the additional training required for staff. It would also facilitate a common platform for training, as well as providing greater opportunities for trained finance staff in other parts of the business.

OUTLOOK: PAVING THE WAY FOR OTHER ADOPTIONS

A number of representatives from the BPO sector also noted that many of their overseas clients still used national GAAP. With conversion to IFRS increasingly inevitable in those countries , and many Indian companies likely to convert sooner than their clients, there is a great opportunity to pass on the expertise harnessed from the India conversion to existing and prospective clients.

Similarly, many Indian multinational corporations already listed abroad, or having overseas subsidiaries, are likely to be faced with numerous statutory filing requirements. This again means having to invest in experts in each national GAAP for local filing and reconciling to parent company reporting GAAP. There was a wholehearted recognition that use of IFRS globally will reduce these reporting burdens and related costs as well as diminishing the risk of error.

A one-time opportunity

As well as recognising that early planning was critical to successful implementation within organisations, a number of participants noted that conversion was likely to bring a unique opportunity to review their entire financial reporting processes thoroughly. They also acknowledged that had they not already performed a relatively recent IT upgrade, the transition to IFRS would have been the ideal opportunity to update their information systems.

The conversion process will allow companies to start, in effect, from 'a clean sheet of paper' for financial policies and processes. For multinational organisations seeking to put in place common accounting processes, it will provide the impetus to centralise and streamline finance functions and strengthen internal controls. Common accounting policies and processes would in turn be a major aid for management decision making, thus having an impact on business strategy beyond the cost savings.

From the discussions, it appears that the benefits of moving to IFRS for organisations and for the Indian economy as a whole are numerous. There was also a very high level of optimism among the corporate community. This was echoed by the professional services firms, both among themselves and on behalf of their clients. Nonetheless, participants were q uick to curb their enthusiasm, considering the challenges of many kinds facing the implementation process. These challenges are discussed in Chapter 4 of this report, while the next section looks at the stage of the implementation process businesses have now reached, and where they want to be in 2011 and beyond.

EDUCATION AND TRAINING

With India at the centre of globalisation already, many companies, most obviously the BPO sector and the larger multinationals, already have to deal with multiple regimes of financial reporting. The strains on resources, and especially training and education, can be significant. As IGAAP (outside the adoption of IFRS for the public interest companies) further converges with IFRS, this new accounting language will be embedded in the accounting education system, and these strains should diminish over time.

SUMMARY: PERCEIVED BENEFITS OF IFRS TO INDIA

Economic impact

- Increased comparability and transparency of Indian company financial statements
- Facilitation of global investment options
- Reduced barriers to entry in global capital markets
- Potentially lower cost of capital, and other cost and risk reductions associated with dual filings

Individual business and industry impact

- Opportunity to provide new and enhanced services – BPO sector and professional services firms
- Cost savings for education and training, with a single accounting regime
- A once-only opportunity to review financial reporting and information system processes comprehensively

3. Where are we now and where do we want to be?

Figure 2: Moving from IGAAP to IFRS

2009/10	2010/11	2011/12	2012/13
Assessment and strategy • impact assessment (investors, operations, people and agreements) • draw up strategy and project plan	**Set-up and modif cations** • work through issues • establish policies • prepare initial results	**Implementation** • execute system changes • embed IFRS into organisation • parallel running of IFRS and IGAAP • review results and systems	**Business as usual**

Echoing the general enthusiasm for IFRS, there was a widespread sentiment that 'Corporate India' needs to acce pt that IFRS is on its way. If an organisation sees itself as a leading company and wants to ensure that it reaps the benefits of adopting IFRS, it needs to start the implementation process now.

UTOPIA

Before considering how they and their clients were developing implementation strategies, participants were asked to consider where they wanted their organisations to be for transition and beyond.

The overriding theme was the need to have appropriate staff in place. This was important for the professional services firms, which need to be in a position to provide assurance and guidance to their clients from an IFRS perspective. Similarly, representatives from the corporate sectors asserted that a successful transition would entail having the correct number of staff, with the right knowledge and expertise. The experience of their staff was critical to implementing IFRS smoothly, and this very much encompassed all areas of the organisation, beyond just the accounting and finance functions.

Another essential ingredient that businesses hope to have in place is up-to-date information management systems, incorporating the particular requirements inherent in reporting IFRS appropriately. As already mentioned, there were perceived benefits both for internal management reporting, as well as to external users. In order to achieve this, a robust IT and wider information system would have to be in position, supported by revised internal controls.

As well as having the support of management and personnel across the organisation itself, the relationship with other external stakeholders was also a key issue. There was recognition from the corporate sector that consultants and professional service firms would play an important role in the overall implementation process, although both parties recognised that the internal accounting and finance functions would have to be less reliant on those services over time.

Similarly, communication channels with the investor community and other users such as financiers and tax authorities would have to be in place. It was seen as important to ensure that reported numbers in IFRS and the differences between IGAAP reported figures are understood.

It was clear where participants believed their organisation's focus was likely to be in the forthcoming months, but there was less certainty over the actual position of corporate India at this time.

TENTATIVE STEPS

As with any major system overhaul, participants unanimously considered that effective change management was pivotal to the conversion process. The discussions below summarise the status of the conversion process through the eyes of participants and their clients.

Strategy

A new financial reporting regime could affect business in a focused area, or it could have more wide-ranging effects across most functions. Determining which outcome was likely was believed to be crucial in devising an appropriate transition plan.

Some of the professional services firms claimed that although many of their clients were talking to them about IFRS, they were doing little in actual preparation. Others had already put conversion strategies in process, and had planned for the internal and external work required. Such companies, which were mainly SENSEX listed, had already invested heavily in areas such as IT systems and internal diagnostics.

Although there was not thought to be a correlation between the size of a company and its level of preparedness, it was clear that those organisations that already had an international presence or customer-base were more aware of the issues relating to IFRS.

Many public sector companies have started seeking help and they should send messages to the private sector – they need to get moving and stop procrastinating.
(QUOTE FROM PARTICIPANT)

Participants from large multinationals certainly believed that they had made some tentative steps in the conversion process, and had outline strategies in place. They were aware of the broad principles of IFRS and how they would affect their organisation's financial statements. Although scaling up might take more time, one participant emphatically summarised, 'we know what it is that needs to be done'.

The professional services firms claimed they were fairly well organised for putting in place their own plans for conversion. Recruitment and training of individuals with appropriate expertise was already high on the agenda and progressing well – evidenced by a number of participants who had in fact recently arrived in India equipped with practical knowledge of IFRS. Similarly, the firms had already begun the process of raising awareness among clients – highlighting the potential issues through one-to-one meetings and producing literature on IFRS.

At board level there is considerably less engagement, for example they have promoted the best people, but have not yet filled their vacated posts. Outside the finance function they need to decide how to roll out IT, training, etc.

OUTLOOK: EFFECTING CHANGE

Experience from conversions in Europe and the UK has shown that when thinking about strategies, successful companies planned for modifications to their internal processes, business practices, IT systems and accounting policies in order to accommodate the new reporting framework. Close attention was also paid to assessing the level of up-skilling required for the workforce at large. The key was to ensure that steps were taken early to ease the later aspects of the transition.

Assessment

There was a universal acceptance that in adopting a strategy for conversion it is vital to assess which areas of the financial statements and which functions outside the accounting function will be most affected.

As mentioned above, many participants from the corporate sector believed that to some extent this was already being completed – with most companies having a sense of where the change might be. Although the accounting firms claimed that there was more variation among their clients, they focused more on the assessment of accounting differences than on other aspects of the conversion. This is fundamental, but companies also need to ensure that they take a business-wide view. A point repeated throughout the meetings was the need for management to engage all areas of the business including, for example, the sales and legal teams who put together contracts and agreements. IFRS could well affect how the economics of the agreements are reported in the financial statements, and the terms and language of those contracts should be reviewed in this context.

Naturally, from an accounting perspective, IFRS will also have a direct impact on IT systems and the broader assessment of accounting processes and policies – those with multi-reporting requirements were expected to be most affected, although this was again seen as an ideal opportunity to reflect on these issues from a business perspective. Reports considering the impact of IFRS have estimated that over 50% of the costs of IFRS conversion are related to IT.[7] Not surprisingly, some companies were thinking very carefully about whether to instigate a full systems upgrade to economise on those costs.

Up-skilling

One participant noted that their organisation had initially concentrated mostly on reviewing internal finance systems. For this company, this had meant that internal training had been given a low priority until now. Although there had been some training, they were now really starting to meet this challenge.

Again, reflecting the size of the organisations that were represented, participants from the larger firms noted that steering groups had been set up tasked with educating staff about the fundamentals. This was being done in-house and in conjunction with outside consultants.

7. *The Effects of IFRS on Information Systems*, KPMG LLP, 2008.

Early acquisition of the right level of knowledge and experience was recognised as crucial to understanding the impact of IFRS, which in turn would enable a successful implementation strategy to be put in place. It is essential therefore that up-skilling is very much internally focused – those with the existing knowledge of the business being kept in place and trained accordingly. Again, from a resource perspective this was clearly more feasible for larger organisations. Multinationals were ideally placed to pull in 'internal' resources from other regions of the business where IFRS was already in use, or who had experience of conversion processes. Nonetheless, it was emphasised that all businesses need to ensure that their key staff are fully trained.

Again, the professional service firms were cited as a major asset in assisting the awareness side of implementation. They had played a major role in other jurisdictions when converting to IFRS and having access to that experience and the retained knowledge base is, and will continue to be, a major help to them and their clients.

OUTLOOK: TAKING THE LEAD

Those companies that had already started their comprehensive education and training programmes emphasised the need to build this theme into any overall assessment. It was crucial to assess the existing skill levels within the organisation, and understand what the additional requirements were. The size of the affected workforce as well as the existing level of experience and qualifications would be critical for assessing what additional education and training were required, and how they would be delivered – whether through in-house training, formal courses or specific IFRS qualifications.

WHO IS GOING TO DO IT?

Another important point raised was that it would be vital for companies not to focus entirely on short-term training needs, and ensure that programmes were in place for continuing education. In order to ensure that adopting IFRS was sustainable from an individual business perspective, it would be important to limit the dependency on outside consultants.

Apart from some of the individual exceptions, there was a general belief that IFRS expertise and knowledge within most businesses in India is currently too low. Although work was in process, with particular assistance from the accounting firms, there was a clear indication that there is some way to go for the majority of businesses likely to be affected.

It was argued that a major reason for this was that many companies have had the mindset that consultants will do the work for them. The professional service firms agreed that this would not be sustainable, and that while they could and already were talking about impact analysis, etc with their clients, the more longer-term education and training requirements had to be managed internally.

IFRS doesn't end after the f rst balance sheet...[we] need to keep people dedicated to it, and reduce the dependency on consultants.
(QUOTE FROM PARTICIPANT)

Indeed, one participant noted the hard lessons learned from their organisation's US GAAP conversion a number of years ago. The emphasis was very much on internal education, with a level of involvement from consultants (depending on the resources available). In particular, it was noted that educating people to understand the impact of IFRS needed to go beyond just the preparers and internal users, but very much needed to include communication with investors and shareholders. It was crucial that the accounting profession and other regulators take this on board.

OUTLOOK: LEARNING FROM EACH OTHER

There appeared to be a major focus on the role the professional service firms would play in the conversion process. Interestingly, there were quite divergent views on how well prepared even some of these were in their current levels of expertise in IFRS. Similarly, there was a concern that the professional services firms were at times giving opposing advice on accounting treatments.

Participants, both from practice and industry expressed a need for the major firms to cooperate more closely in raising awareness, while more avenues such as these roundtable meetings were needed to facilitate discussions on key issues.

At the same time, while programmes were being conducted, these had to move beyond the basic overviews of IFRS.

Others ascribed the lack of urgency in preparing for IFRS, and the low investment in education and training, to the lack of clarity about the date of transition. There is a widespread attitude that scaling is not a problem, and that it will be done when needed. For many, it was a matter of being pushed, and the ambiguity over transition – there have been increasing suggestions from the corporate world and the profession that this could be delayed – was not helping to build the appropriate mindset.

While there were some good examples of companies that had progressed well in their implementation plans, overall the current level of preparation of IFRS conversion is not well advanced. Many companies are still short of the resources that are likely to be needed, and participants believed that many companies were relatively apathetic about conversion – 'when the time comes it will be OK'. Although there was overwhelming confidence that when clear goals were in sight, there would be progress, in order to manage the process smoothly it would be vital for the wider profession to tackle the challenges arising from the current situation of the majority of industry. As shown in Figure 1 on page 11, the need to provide comparative information in IFRS is urgent, as the transition date for conversion is essentially a matter of months away. The hurdles need to be overcome now.

SUMMARY: KEY POINTS THAT WILL AID THE TRANSITION TO IFRS

- Strategy and assessment. To some extent interdependent, successful transitions will depend significantly on having a well-thought-out plan.
- A preliminary study of the impact on the financial statements is an integral part of the original assessment, which will affect other areas.
- IFRS is likely to have a wide impact, beyond the finance function, and these managers need to be made aware of how IFRS may affect their decision-making.
- IT and information system costs are likely to be a major expense in the conversion process, as new accounting policies and processes need to be adopted – it is worthwhile assessing if the conversion process can be tied in with other IT-related restructuring.
- Education and training will be a major factor. Management needs to consider how to increase the skills of the internal workforce, using expert consultancy advice where needed, while ensuring that the process is both forward looking and internally managed.
- Organisations must work with international subsidiaries and associates to ensure that consistent accounting policies and practices are in place – 'global group manuals' will be needed for multinationals converting to IFRS.
- Early communication is key – helping key stakeholders to understand the impact of converting to IFRS, from a change-management perspective, and the impact on the financial statements themselves.
- Having formed an assessment and a strategy, it is important that a strict timeline is followed (converting opening balances; first reports, announcements, changes to IT systems).
- A steering group needs to be set up to review the process on a regular basis.

4. From here to utopia – challenges and solutions

Although participants indicated that there are some beacons among companies that have formal strategies in place, looking at most of the key elements fundamental to conversion to IFRS there appears to be a general lack of focus in the Indian business community. This relatively casual outlook from regulators appears to reflect a lack of clarity about the transition. It also hides the fact that there are significant challenges for India in achieving a successful and worthwhile conversion.

It was noted that the challenges may be limited for those Indian companies that have listed Global Depositary Receipts (GDRs) and American Depositary Receipts (ADRs) and therefore already have experience of transition to a certain level, but the impact of switching to IFRS on India as a whole was being underestimated. Participants noted that, given the potential number of companies required to report in IFRS from 2011 – well in excess of 20,000, the number of accountants who would need to thoroughly familiarise themselves with the future accounting language would be considerable. When taking into account the parallel need to educate other stakeholders, such as regulators, investors and internal management, and raise awareness of the impact of IFRS among them, the challenge was significant.

WHAT'S THE DIFFERENCE?

When referring to the revision and review of new accounting standards in India, the ICAI notes that 'the aim has always been to follow the IFRSs, to the extent possible. However, deviations from IFRSs have been made due to various unavoidable reasons'. Some of the reasons noted by the ICAI are:

- the need to maintain consistency with legal and regulatory requirements
- economic environment
- level of preparedness
- conceptual differences.

To some extent, these also reflect the participants' concerns about the challenges of adoption of full IFRS. These views are discussed throughout this section. It is clear that these challenges arise because IGAAP and IFRS are two different accounting regimes, with different bases.

Many participants did indeed indicate that the differences between the regimes were diminishing. Nevertheless, they highlighted some areas of IFRS that would be a particular challenge for the accounting profession in India.

- IFRS allows more choices than IGAAP, and therefore necessitates wider use of professional judgement. Citing examples such as the treatment of actuarial gains and losses allowed in IFRS compared with IGAAP, participants argued that IFRS was more 'liberal' than IGAAP, and that a change in mindset would be needed.
- Initial transition would be a major challenge, as recognition and criteria for assets and liabilities differ between IGAAP and IFRS. Their recognition or derecognition under IFRS, as well as their measurement under IFRS principles would have significant impact on initial earnings, and the need to put in place information systems to catch these differences would therefore be vital.
- Business combinations and financial instruments were the other major areas that participants indicated could be a problem early on, with other differences likely to occur in income taxes, employee benefits and revenue recognition.

Fair value

Participants did not concentrate heavily on the detailed differences between IFRS and IGAAP, as there is considerable literature already available on this, and more complex issues need more in-depth discussions. Nonetheless, it was evident that fair value accounting in general was a broader issue.

As noted earlier, there are notable benefits to providing more transparent and relevant information, which some had argued would be available through the use of fair value accounting. Although the debate on the concept of 'fair' value would continue, and was still running at the IASB and elsewhere, the bigger problem will be ensuring that the expertise is available to provide the information to arrive at those values.

By their very nature, fair values require active markets, and can be assessed only if there are readily available market prices and values. In their absence, greater reliance has to be placed on valuation techniques and estimates. There is an absence of this expertise, with a shortage of both valuers themselves and the accounting professionals needed to implement and challenge the resulting accounting.

OUTLOOK: THE EUROPEAN EXPERIENCE

Most early reviews suggested that compliance with the principles of IFRS was effective in most cases, although disclosures were less well done. The diverse nature of existing national standards in Europe was reflected in a 'national' impression given by many of the financial statements. The problematic standards were the ones that were not covered by national accounting systems, such as share-based payments and particularly financial instruments, where numerous areas were problematic:

- split accounting
- distinction between equity and liabilities
- need to account for derivatives on balance sheet
- number of classifications
- greater use of fair value.

Common restatements from national GAAP also occurred in the areas of business combinations such as:

- requirement to recognise and value more intangibles
- no more systematic amortisation of goodwill – subject to annual impairment review
- higher than expected impairments of intangibles (and tangibles).

Moving targets

When discussing the issues of accounting differences and particularly those relating to financial instruments, a major concern for participants was how to cope with IFRS standards that are in the process of being revised. This was particularly the case for the IFRS related to financial instruments that are currently being revised, but may not be effective until after IFRS transition in India. It was argued that there might be a greater burden on India (and other converting countries) compared with countries that have already converted, and that therefore have some relevant information systems in place. Indian companies might have to implement the old standards, only to have to revise their systems again to apply the new requirements.

OUTLOOK: INPUT INTO IFRS

As noted below, when discussing issues of 'Adoption or Convergence?', participants understood that adopting IFRS would mean loss of local sovereignty over the setting of accounting standards. While a 'snapshot' decision could be made after thorough review, any subsequent changes to IFRS would mean automatic use in India, if IFRS were adopted fully. In order to preserve the notion of a single set of standards, while needing to resolve any particular national economic issues, a national committee would have to be formed, to respond formally to IASB standards. This committee would be led by the accounting profession and the business community, and provide a united view on how the issues affect Indian business.

THE BUSINESS CASE

Awareness above and beyond the finance function

As mentioned above, some changes resulting from switching accounting regimes will be simple and others complex, but the repercussions will be experienced well beyond the accounting and finance functions. Given the impact on each business as a whole, all participants agreed that it was imperative that key decision makers throughout the business are aware of the potential costs of implementation and the potential impact on reported numbers. Early indications were that, in many cases, those charged with governance and management were not fully aware of the implications of convergence with IFRS. This clearly reflects the general ambiguity amongst many companies, highlighted earlier.

As the company board is ultimately responsible for approving conversion strategies and setting them in motion, companies have to move away quickly from the false notion that 'only the finance function will be affected'. If they do not understand the challenge, the whole internal conversion process will be hampered.

OUTLOOK: GETTING EVERYONE TO THE TABLE

Participants representing organisations where the conversion strategy was well progressed indicated that the formation of an internal steering committee was a major help. The early buy-in from management leading to its formation, as well as the broad make-up of the group meant that there was a positive impact on staff, who were able to engage more readily.

An IFRS working group and steering committee should have representation from all interested parties across the business and would typically include

- relevant board members, to understand business impact
- technical accounting and policy advisor, likely to be from the finance function to identify key accounting drivers
- IT specialist, looking into systems requirements and analysis
- HR manager, to action training and education requirements
- legal specialist, given the implications for existing and future contracts and agreements of applying IFRS
- investor relationship manger, ensuring early and effective communication of how IFRS conversion is affecting the company

Communication

Most participants believed that in many companies profitability as well as the position of the business would be affected – and quite possibly in a negative way. It was important for management to understand that this was not due to any alterations in the economics of the underlying transactions, but a reflection of accounting requirements. Similarly, management need to be made aware of the business benefits of moving to IFRS. Although conversion to IFRS in India is not optional, participants argued that more emphasis needs to be placed on the positive impact, the possibility of creating value for the business, to ensure that management and boards are fully behind the process, so that they do not see it as simply another compliance exercise. Again, as previously noted, those charged with putting in place contracts and agreements with third parties also have to be made aware of the potential impact on accounting numbers resulting from existing contracts, and on new or renewed ones.

Ultimately, the users of listed company financial statements are shareholders and investors. Their main concerns will be how any changes might affect share price and the overall impact on the value of the business. It was clear that there were major incentives for companies to ensure that the communication process with investors and analysts was well thought out, and that this would be essential in maintaining trust during initial transition, where there would be relative 'uncertainty' over reporting.

What was also evident from the discussions was a general impression that the analyst community was not fully aware of IFRS. Analysts would need to reconsider their current models, and be able to incorporate IFRS assumptions appropriately. Participants agreed that the issue of education and training needed to spread beyond the accounting profession. It would have to include analysts, investor groups and regulators, as well as focused work on high-level issues for tax authorities and internal management.

OUTLOOK: MANAGING EXPECTATIONS

Experience from other jurisdictions shows how beneficial good and early communication can be in the conversion process. Good examples from the European experience were plentiful, with companies commenting on key IFRS differences by:

- issuing early statements to analysts
- having one-to-one calls with the press to explain some of the major differences – allowing comments to be much more meaningful
- providing investor releases for shareholders – this is already being done by some Canadian companies, which will also be moving to IFRS in 2011
- using preceding financial statements to communicate, quantify and reconcile differences between reported figures under existing national GAAP compared to those that are likely under IFRS

LEARNING THE LESSONS

A theme in raising awareness among both internal and external stakeholders has been the need to educate those groups about the potential impact of IFRS on financial reporting.

Coupled with the belief that there is an existing shortage of accounting professionals in India, the current limited IFRS expertise and knowledge in India meant that participants saw training and education as the biggest challenge of adoption. The ICAI's CP notes that Indian standards have already been aligning with IFRS for a number of years. Nonetheless, there was a clear indication from the majority of participants that some significant differences did exist. More fundamentally, it was believed that IGAAP was in many respects more conservative than the inherently principles-based IFRS. Thus even well-trained, qualified accountants would be faced with new and quite different challenges.

Figure 3: Recommendations for communicating transition in financial statements

2009/10	2010/11	2011/12	2012/13
The transition plan • Description • Identification of key differences	**Quantitative analysis** • Effect on 2010 financials	**Reporting** • Interim statements in accordance with IAS34 or • National standards with IFRS measurement basis	

Source: Based on Committee of European Securities Regulators (CESR) proposals outlined in their paper, *European Regulation on the Application of IFRS in 2005: Recommendation for Additional Guidance Regarding the Transition to IFRS*, 2003.

Education

Interestingly, many participants argued that understanding the underlying principles was crucial to grasping IFRS, but that these concepts were not well understood.

Although the need to train already-qualified accountants was an undisputed and urgent issue, because they would be leading the actual detailed conversion work, there was a strong opinion that a bottom-up approach to the education system was needed. A participant noted that ‘learning needs to start early’. It was recognised not only that knowledge gaps in IFRS-based accounting need to be filled as soon as possible among the wider profession, but also that future preparers and auditors must be well equipped to speak on IFRS. Specific suggestions included a thorough review of the university education system, such that IFRS would be embedded into the accounting syllabuses.

Similarly, despite the much-needed efforts by ICAI to develop its certificate in IFRS, and other well-recognised diplomas in the subject, concerns were raised about when IFRS would be incorporated into the main ICAI qualification. This is clearly a dif cult issue, given that for some time there is still likely to be IGAAP that will be relevant to many Indian filers. This is further explored below in the section headed ‘Future of IGAAP’.

Training

As mentioned, courses and qualifications in IFRS are a welcome addition to the development for qualified, practising accountants who have been trained under IGAAP, and may have knowledge about other accounting regimes. The key point noted by participants was that it is vital that such qualifications are practical, allowing well-versed professionals to explore the key issues they are likely to face.

Again, participants pointedly referred to the principled nature of IFRS, and the subsequent need to understand core concepts and be able to apply judgement to relevant issues. The particular nature of IFRS is such that simple ‘book learning’ is not enough. Both for preparers in the corporate sector and qualified professionals in the assurance and consultancy services, practical and continuing professional development (CPD) are required.

The fact that IFRS themselves are going through significant change was also noted, again emphasising the need to ensure that training programmes for both corporate clients and professional firms is part of a long-term exercise. This was considered to be more of an issue for some of the smaller businesses, but it would be helpful if CPD requirements were built into formal qualifications.

Participants from some of the larger organisations also mentioned the fact that although more specific detailed training was required for their accounting staff, higher-level courses did exist and were being used; for example, those aimed at audit committees.

We cannot have standard training for all. There is a need for dif erent levels of training – for the very high level, standard external training could be used, but more detailed bespoke training is needed for the accounting and f nance functions, but someone needs to tell everyone what to do.

(QUOTE FROM PARTICIPANT)

These thoughts from participants again reflect the fact that while the right noises are being made in many organisations, there was still a lack of confidence and structure for getting the training and education in order. Although considerable help is already forthcoming from the professional firms, there also appeared to be concerns about how well equipped they themselves were. The accountancy firms in general believed that the knowledge was there, and certainly being built up, but that the clients possibly believed that this was not suf cient. Nonetheless, all groups again made the point that reliance should not be placed on outside consultants, and that the training programmes had to be planned and managed internally.

Forums and discussion groups

There was also strong support for using networks to obtain knowledge. Most accountants had a suf cient network base to do so.

Moreover, it was seen as important to set up industry groups, as was the case in Europe, where facilitated groups were a major help in ensuring that consistent solutions and decisions were arrived at for common issues. Similarly, it was argued that the professional firms needed to work more closely together, both in helping to facilitate such groups, and in ensuring that they too were providing their clients with consistent responses to queries about accounting treatments and effects.

OUTLOOK: POSITIVE EXPERIENCE FROM EUROPE

As noted by a number of participants with experience from the European transition, the facilitated industry groups meant that it was the corporates who were taking the responsibility and initiative, and they were then able to relay this to the consultants. As one participant noted, ‘while there are some groups, such as CII, India needs to find a way of building up more extensive groups, with discussion forums like this being an important starting point’.

SETTING THE RULES

The setting up of NACAS, by the Ministry of Corporate Affairs in conjunction with various regulators such as the Reserve Bank of India (RBI), the Insurance Regulatory & Development Authority (IRDA) and the Securities and Exchange Board of India (SEBI), should have been a clear signal of the Indian government's intention regarding IFRS adoption. Early indications have been that the 2011 transition date was set in stone. Nevertheless, a common theme among all participants was the apparent lack of clarity about whether the planned transition date would still go ahead. It is clear, however, that at least in public neither the government nor the ICAI has wavered from that date.

The perceived lack of clarity, which many argued was having a severe effect by delaying implementation programmes for many companies, stemmed from a number of issues that many believed still need to be resolved before the 2011 goal can be reached.

OUTLOOK: MUST CONVEY BENEFITS

As previously noted, many organisations argued that they needed more and clearer signals from the government about IFRS transition. Once they were convinced, they would move more decisively to accelerate the implementation processes. Currently they were reluctant to make substantial investments, in case the transition date was indeed delayed. They also claimed that a more positive approach was needed from the government, outlining what the potential benefits were for the Indian economy as a whole – many believed that Indian companies could well achieve even more substantial gains than those in other jurisdictions that have adopted IFRS. There will be costs, but most participants believed that these would be largely initial costs and that increased global competitiveness would soon outweigh these – the government should be more positive.

Interaction between accounting and legislation

Concerns were raised about the compatibility of Indian laws with IFRS in matters governing accounting. For example, many noted that the formats prescribed in Schedule VI of the Companies Act 1956 differ from the presentation requirements in IAS1. There is no separate SORIE or SOCIE in IGAAP, and there is no requirement to separate on the balance sheet amounts partly recoverable in 12 months from those recoverable over a longer period. Other issues around the lack of clarity about true and fair override guidance in IGAAP (Clause 49 of the Listings Agreement) and in IAS1 were also noted.

As compliance with national law and regulation overrides IFRS, it is vital that any differences are nullified as soon as possible.

Taxing matters

Adopting IFRS is going to have a major impact on the bottom line for a large proportion of companies. This will affect tax liabilities, and entities will need to ensure that appropriate tax planning strategies are considered.

From a wider perspective, participants argued that greater cooperation was needed between the tax authorities and standard-setters. There was considerable uncertainty about tax treatments of items that would arise from the convergence with IFRS – unrealised gains when revaluing financial instruments at fair values was noted as a prime example. When IFRS was introduced in the UK, where in essence the accounting system is relatively tax-neutral, formal groups were formed by what was then the Inland Revenue to look into and discuss the potential impact of IFRS on tax accounting. While there were no major issues from the UK perspective, many participants argued that the interactions between accounting and current tax laws were an issue for Indian businesses. It was again important to sort out these issues to give confidence to the market.

Interestingly, it was believed that one of the reasons why there was still a level of ambivalence in the business and professional community about the 2011 transition date, was because the government was frantically looking into many of the issues outlined above. Whatever was the situation, it is important that there is more dialogue with industry and greater transparency about government thinking on transition. Although adoption at the earliest opportunity was preferred, most companies would be happy to delay, if it meant that any issues were openly resolved.

OUTLOOK: DELAY NOT NECESSARILY A BAD THING

Time pressure was a common and strong theme among participants. There was a firm belief that from a regulatory perspective the process needed at least three to four years. Europe had faced similar issues, but there the infrastructure to review and make changes to legislation was in place much earlier. Greater cohesion was needed between regulators, standard-setters and government bodies.

OUTLOOK: EDUCATING THE REGULATORS

In its 2004, ROSC report on India, the World Bank noted the Stock Exchanges lack suf cient numbers of qualified professionals and financial resources to systematically carry out monitoring of compliance with accounting and financial reporting requirements[9]. Participants echoed these concerns, noting that education and training in IFRS needed to be extended well beyond accountants in companies and accounting firms.

Adoption or convergence?

Almost all participants agreed that it would not be beneficial simply to have converged standards, which brought in IFRS, but were adapted for Indian legislation and the nuances of Indian business. Full adoption would be required to ensure that the benefits of a single set of global standards were achieved in the long run. Clearly, it is important for India to ensure that any particular industry and regulatory issues are dealt with, before full adoption, but ideally Indian businesses should be adopting full IFRS. It was noted that even if India did not fully adopt actual IASB standards, this would not be unique, as many jurisdictions have adopted IFRS-equivalent standards, and European legislation similarly includes a 'carve out' from one requirement within IASB standards.

Everyone is still waiting for a signal from the government. There needs to be a separate agency reviewing this. While the Ministry of Corporate Af airs are taking certain initiatives[8] [we] need an empowered group to get everyone working together.

(QUOTE FROM PARTICIPANT)

Getting the infrastructure in place

Some participants claimed that there had been little consideration of how the transition to IFRS would be supervised at the professional level. Education and training were a major issue, as already discussed, but there were also concerns that: 'IGAAP itself is not always applied consistently – how will we make sure that IFRS is being applied correctly?' It was seen as important to ensure that a wider supervisory infrastructure is put in place, to ensure that standards are maintained in the profession.

Clearly, listed companies were already regulated to a large extent, and participants noted the positive and timely reaction to accounting scandals in India, as well the as the careful peer process that had been put in place through the SEBI. Nonetheless, as discussed below, many more companies will be adopting IFRS, according to the current proposals by the ICAI. There needs to be a robust mechanism for supervising the reports of such companies and their accountants.

THE FUTURE OF INDIAN GAAP

Stemming from the question of adoption or convergence, further questions were raised about what would now happen to IGAAP if full IFRS were adopted by the intended companies. There would still be a considerable number of entities that would need to file accounts, presumably under IGAAP. Would a more converged form of IGAAP be relevant to such entities?

Pushing the thresholds

A more pressing concern was, however, whether the current threshold level for adopting IFRS was appropriate in itself. When Europe adopted IFRS in 2005, it was estimated that only 7,000 or so companies (all listed) were covered by the requirements. As at April 2009, there were 4,930[10] listed securities on the BSE, and a further 1,646[11] securities available for trading on the National Stock Exchange of India. Despite the fact that the proposed turnover threshold for a public-interest entity (Rs.100 crore) is twice that of the current guidance on what constitutes a Level I Enterprise, there are estimates that as many as 20,000 companies could be required to prepare IFRS financial statements in 2011.

8. In August 2009, subsequent to these roundtable meetings, the Ministry of Corporate Affairs established a group of prominent experts to address implementation challenges related to convergence.

9. World Bank, *Report on the Observance of Standards and Codes (ROSC):* India, p. 12, 2004.

10. Bombay Stock Exchange, 'BSE Key Statistics' [online text], <http://www.bseindia.com/about/st_key/list_cap_raised.asp>.

11. National Stock of Exchange [website], <http://www.nseindia.com>.

Evidence from Europe suggests that, the smaller the size[12] of the entity, the greater the proportionate costs of implementation. Coupled with the very limited number of suitably trained staff, many participants considered that the current threshold levels needed to be revised.

There needs to be a debate on size, with more realistic targets required. A more realistic phased approach would be more appropriate. [Restrict] implementation to listed companies f rst.[13]

(QUOTE FROM PARTICIPANT)

What about the rest – IFRS for SME?

Although the debate was very much about India's transition to full IFRS, the IASB project for producing a full standard for small and medium-sized entities was raised. There was a positive reaction to the recently issued IFRS for SME standard, and many believed that this was going to be the future of IGAAP. Indeed, as the ICAI CP noted, it will be looking at this in more detail in this very context, as are other jurisdictions around the world. Following this standard will mean that the principles of IFRS will be retained, without placing an unnecessary burden on smaller companies. The positive impact on education and training as a result of incorporating such a standard was noted as another big positive point, as accountants would not need to learn two accounting regimes, part of which are based on different principles.

SUMMARY OF CHALLENGES FACING INDIA'S TRANSITION TO IFRS

Underlying all the challenges was the view that IFRS and IGAAP were two different accounting regimes, and although work is already well under way to bring Indian accounting standards in line with IFRS, significant differences remain.

- The increased use of fair value accounting under IFRS means professionals and industries need to be in place to arrive at reliable values.
- The importance of aligning regulatory and legislative requirements with those of IFRS is a key obstacle. A coherent and revised roadmap needs to be prepared, to ensure that the implementation is not derailed by uncertainty over whether transition will occur as expected.
- There needs to be strong and coordinated lobbying for such change, and the government needs to act on this, as well as emphasising the benefits of IFRS.
- Although the costs of business restructuring will be significant, the biggest challenge for resources is training and development of staff. The training programme has to be led by internal management, with consultants playing an important part.
- For the future of the profession, IFRS needs to be embedded in accounting and university syllabuses.
- The differences arising from the adoption of IFRS have to be communicated to internal and external stakeholders early and in an appropriate manner.

12. ICAEW, *EU Implementation of IFRS and the FV Directive: A Report for the European Commission*, 2007.

13. In October 2009, a group set up by the Ministry of Corporate Affairs to look at IFRS convergence, tentatively concluded that a phased approach would be more appropriate.

Appendix A: List of Indian accounting standards and equivalent international financial reporting standards

Indian Accounting Standards (AS)	IFRS (IAS) equivalent
AS 1 Disclosure of Accounting Policies	**IAS 1** *Presentation of Financial Statements* ***SIC 29*** *Service Concession Arrangements: Disclosures*
AS 2 (Revised) Valuation of Inventories	**IAS 2** *Inventories*
AS 3 (Revised) Cash Flow Statements	**IAS 7** *Statement of Cash Flows*
AS 4 (Revised) Contingencies and Events Occurring after the Balance Sheet Date	**IAS 10** *Events after the Reporting Period*
AS 5 (Revised) Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	**IAS 8** *Accounting Policies, Changes in Accounting Estimates and Errors*
AS 6 (Revised) Depreciation Accounting	**IAS 16** *Property, Plant and Equipment*
AS 7 (Revised) Construction Contracts	**IAS 11** *Construction Contracts*
AS 8 *Accounting for Research and Development* (AS-8 was withdrawn from the date AS-26 became mandatory)	
AS 9 Revenue Recognition	**IAS 18** *Revenue* **SIC 31** *Revenue – Barter Transactions Involving Advertising Services* **IFRIC 13** *Customer Loyalty Programmes*
AS 10 Accounting for Fixed Assets	**IAS 16** *Property, Plant and Equipment*
AS 11 (Revised) The effects of Changes in Foreign Exchange Rates	**IAS 21** *The effects of Changes in Foreign Exchange Rates* **SIC 7** *Introduction of the Euro*
AS 12 Accounting for Government Grants	**IAS 20** *Accounting for Government Grants and Disclosure of Government Assistance* **SIC 10** *Government Assistance – No Specific Relation to Operating Activities*
AS 13 Accounting for Investments	**IAS 39** *Financial Instruments: Recognition & Measurement* **IAS 40** *Investment Property*
AS 14 Accounting for Amalgamations	**IFRS 3** *Business Combinations*
AS 15 Accounting for Retirement Benefits in the Financial Statements of Employers	**IAS 19** *Employee Benefits* **IFRIC 14** *The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
AS 16 Borrowing Costs	**IAS 23** *Borrowing Costs*
AS 17 Segment Reporting	**IFRS 8** *Operating Segments*
AS 18 Related Party Disclosures	**IAS 24** *Related Party Disclosures*
AS 19 Leases	**IAS 17** *Leases* **SIC 15** *Operating Leases – Incentives* **SIC 27** *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* **IFRIC4** *Determining Whether an Arrangement Contains a Lease*
AS 20 Earnings Per Share	**IAS 33** *Earnings Per Share*
AS 21 Consolidated Financial Statements	**IAS 27** *Consolidated and Separate Financial Statements* **SIC 12** *Special Purpose Entities*
AS 22 Accounting for Taxes on Income	**IAS 12** *Income Taxes* **SIC 21** *Income Taxes – Recovery of Revalued Non-Depreciable Assets* **SIC25** *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*
AS 23 Accounting for Investments in Associates in Consolidated Financial Statements	IAS 28
AS 24 Discontinuing Operations	**IFRS 5** *Non Current Assets Held for Sale and Discontinuing Operations*
AS 25 Interim Financial Reporting	**IAS 34** *Interim Financial Reporting* **IFRIC 10** *Interim Financial Reporting and Impairment*
AS 26 Intangible Assets	**IAS 38** *Intangible Assets* **SIC 32** *Intangible Assets – Website Costs*
AS 27 Financial Reporting of Interests in Joint Ventures	**IAS 31** *Interests in Joint Ventures* **SIC 13** *Jointly Controlled Entities – Non Monetary Contributions by Venturers*
AS 28 Impairment of Assets	**IAS 36** *Impairment of Assets* **IFRIC 10** *Interim Financial Reporting and Impairment*
AS 29 Provisions, Contingent Liabilities and Contingent Assets	**IAS 37** *Provisions, Contingent Liabilities and Contingent Assets* **IFRIC 1** *Changes in Existing Decommissioning, Restoring and Similar Liabilities* **IFRIC 5** *Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds* **IFRIC 6** *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (WE&EE)*
AS 30 Financial Instruments: Recognition & Measurement	**IAS 39** *Financial Instruments: Recognition & Measurement* **IFRIC 9** *Reassessment of Embedded Derivatives*
AS 31 Financial Instruments: Presentation	**IAS 32** *Financial Instruments: Presentation* **IFRIC 2** *Members' Shares in Cooperative Entities and Similar instruments*
AS32 Financial Instruments: Disclosures (and limited revision to Accounting Standard (AS) 19, Leases)	**IFRS 7** *Financial Instruments: Disclosures*

The following IFRSs do not have any directly related AS equivalents

IFRS 1	*First-time adoption of International Financial Reporting Standards*
IFRS 2	*Share-based Payment*
IFRS 4	*Insurance Contracts*
IFRS 6	*Exploration for and Evaluation of Mineral Resources*
IAS 26	*Accounting and Reporting by Retirement Benefit Plans*
IAS 29	*Financial Reporting in Hyperinflationary Economies*
IAS 41	*Agriculture*
IFRIC 7	*Applying the Restatement Approach Under IAS 29*
IFRIC 8	*Scope of IFRS 2*
IFRIC 11	*IFRS 2 Group and Treasury Share Transactions*
IFRIC 12	*Service Concession Arrangements*

Appendix B: Abbreviations and acronyms used in this report

ADR	American Depositary Receipts
AS	Accounting Standards (issued by ICAI)
ASB	Accounting Standards Board of ICAI
BPO	Business Process Outsourcing
BSE	Bombay Stock Exchange
CESR	Committee of European Securities Regulators
CPE	Continuing professional development
EU	European Union
IAS[14]	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAI	Institute of Chartered Accountants of India
IFRS*	International Financial Reporting Standards
IFRIC	International Financial Reporting Interpretation Committee
IRDA	Insurance Regulatory and Development Authority
IOSCO	International Organisation of Securities Commissions
GAAP	Generally Accepted Accounting Principles
GDR	Global Depositary Receipts
NACAS	National Advisory Committee on Accounting Standards
NSE	National Stock Exchange of India
RBI	Reserve Bank of India
ROSC	Report on Observance of Standards and Codes
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission (US)
SIC	Standards Interpretation Committee
SME	Small and medium-size enterprises
SOCIE	Statement of Recognised Income & Expense
SORIE	Statement of Recognised Income & Expense
UNCTAD	United Nations Conference on Trade and Development

14. In 2001, the IASB was formed from and took over the standard-setting responsibilities of the IASC. All existing IASs and SICs were adopted by the IASB. Subsequent standards and interpretations issued by the IASB have been titled IFRSs and IFRICs, respectively. Throughout this document, the term IFRS has been used to encompass all standards and interpretations adopted by the IASB.

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