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OPPORTUNITIES AND CHALLENGES IN ADOPTING IFRS IN INDIA

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Abstract
It is well known that companies all over the world have become more and more internationally oriented during last few decades. They create fusion, make investment, conduct trade and co-operate over country borders. International Financial Reporting Standards (IFRS) is becoming the global language of business with over 40% of the world having moved to IFRS in the past few years. By 2016, it is expected that all companies in major markets will be using IFRS. The globalization creates an increased need for communication in the terms of language, awareness of culture differences and domestic customs. Moreover the financial communication such as accounting and financial results is just as important for business leaders and employees to master. Hence Proponents of International Financial Reporting Standards (IFRS) claim that mandating a uniform set of accounting standards improves financial statement comparability that in turn attracts greater cross-border investment.

Key Words: Globalization, IFRS, Financial Statement, Cross-Border Investment.

1.1 Introduction

The International Financial Reporting Standards (IFRS) and their evolvement into one of the most common accounting standards used in the world. The International Accounting Standards Board (IASB) was established in 2001 to develop International Financial Reporting Standards (IFRS).IFRS stands for "International Financial Reporting Standards" and it is posed as the global language of accountancy which is aimed to make the comparison and interpretation of the financial statements across the world easier. It includes International Accounting Standards (IASs) until they are replaced by any IFRS and interpretations originated by the IFRIC or its predecessor, the former Standing Interpretations Committee (SIC).IFRS is a set of international accounting and reporting standards that will help to harmonize company financial information, improve the transparency of accounting, and ensure that investors receive more accurate and consistent reports. IFRS were adopted legally first time in 2005 by European Union. Other countries with developed capital markets have adopted or in the process of adopting IFRS in for reporting purpose. However, is only possible if all the countries prefer the IFRS reporting.

1.2 Objectives of IFRS

The main objective of IFRS development is harmonization in financial statements reporting.
Some additional objectives are:

1. To create the global financial reporting infrastructure.
2. To generate sound business sense among the beneficiaries.
3. To generate the dimensions of fair presentation of financial statement.
4. What is the reason to implement the International Financial Reporting Standards (IFRS) in India?

1.3 Overview of Adoption of IFRS

IFRS are accounting rules ("standards") issued by the International Accounting Standard Board (IASB), an independent organization based in London, UK. Before the inception of IASB, international standards were issued by the IASB's predecessor organization, the IASC, a body established in 1973 through an agreement made by professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America. Up to 2000, the IASC's rules were described as "International Accounting Standards" (IAS). In fact, in 1997 after nearly 25 years of achievement, IASC recognized that to continue to perform its role effectively, it must find a way to bring about convergence between national accounting standards and practices and high-quality global accounting standards. In late 1997 IASC formed a Strategy Working Party that published a discussion paper in December 1998 and final recommendations in November 1999. The IASC Board approved the proposals in December 1999, and the IASC member bodies did the same in May 2000. The new standards-setting body was named as International Accounting Standards Board (IASB) and since April 2001, it has been performing the rule-making function. Components of IASB structure contain- IASB, IASC Foundation, International Financial Reporting Interpretations Committee (IFRIC), previously Standing Interpretations Committee, SIC under IASC), Standards Advisory Council (SAC) and Working Groups. The IASB is better funded, better-staffed and more independent than its predecessor. The IASB describes its rules under the new label "International Financial Reporting Standards (IFRS), though it continues to recognize the prior rules (IAS) issued by the old standard-setter (IASC).

1.4 IFRS in India

In India, Accounting standards are formulated by council of Institute of Chartered Accounts of India (ICAI).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.

In 2007 ,India has decided to converge with IFRS in 2007.ICAI started the process of developing a complete set of accounting standard that are "converged with" IFRS- which will be known as Indian AS . There is a difference between adoption and convergence to IFRS. Adoption means using IFRS as issued by IASB. Convergence means that the Indian Accounting standard board and IASB would continue working together to develop high quality, compatible accounting standard over time.

With an objective to ensure smooth transition to IFRS from 1 April, 2011, ICAI is taking up the matter of convergence with IFRS with National Advisory Committee on Accounting Standards (NACAS) established by the Ministry of Corporate Affairs, Government of India and other regulators including Reserve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA) and the Securities and Exchange Board of India (SEBI

The Core Group for IFRS convergence formed by MCA has recommended convergence to IFRS as under:

Phase I (Opening Balance Sheet As at 1 April, 2011)

1. Companies which are part of BSE - Sensex 30 and NSE- Nifty 50;
2. Companies whose shares or other securities are listed outside India;
   Companies whether listed or not, having net worth of more than Rs. 1,000 crores.

Phase II (Opening Balance Sheet As at 1 April, 2013)

Companies are not covered in Phase 1 and having net worth exceeding Rs. 500crores.

Phase III (Opening Balance Sheet As at 1 April, 2014)

Listed companies not covered in earlier phases. (If the financial year of a company commences at a date other than 1 April, then it shall prepare its opening balance sheet at the commencement of immediately following financial year.) Separate Road Map would be prepared for banking and insurance companies. The issue of convergence with IFRS has gained significant momentum in India recently.

1.5 The Benefits of IFRS Adoption

Benefits of IFRS to Users and Preparers of Financial Statements

1. If a business adopts IFRS, the business will be able to present its financial statement on a single set of high quality and global standards.
2. Adoption of IFRS will result in high quality, transparent and comparable financial statements that are based on modern accounting principles and concepts that are being applied in global markets.
3. If a company uses IFRS, the company could enjoy the benefit of raising capital from abroad.
4. Comparison is made easier with a foreign competitor if a company presents its financial statement according to IFRS.
5. The adoption of IFRS will improve cross border investment by enhancing comparability of financial statements prepared anywhere in the world.

Benefits of IFRS for National Regulatory Bodies

1. Indian Accounting standard Board will be alert to the best international accounting practice (IFRS) to guide them in the establishment of highly improved reporting practices in India**.**
2. It brings about a higher and improved standard of financial disclosure.
3. It also brings about better ability to attract and monitor listings by foreign companies.

1.6 Challenges of Adopting IFRS

Accounting Professionals across the world have listed various benefits of adopting IFRS. In spite of these benefits, adoption of IFRS is a difficult task and has many challenges.

Difference in GAAP and IFRS

Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. The differences are wide and very deep routed. It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements. 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 unrealized gains and losses and the move from a tax basis for depreciation (IGAAP) to one of useful economic life (IFRS).

Training and Education

Lack of training facilities and academic courses on IFRS will also pose challenge in India.A key challenge is to ensure companies, auditors, regulators and the investment community is 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 efficient.

Legal and Regulatory Considerations

Currently, the reporting requirements are governed by various regulators in India and their pro- visions override other laws. IFRS does not recognize such overriding laws. The regulatory and legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory.

IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS.

Fair Value Measurement

IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of volatility and subjectivity to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used.

Re-negotiation of Contract

The contracts would have to be re-negotiated which is also a big challenge. This is because the financial results under IFRS are likely to be very different from those under the Indian GAAP.

Reporting Systems

Companies would have to ensure that the existing business reporting model is amended to suit the reporting requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc.

1.7 Current State of IFRS

The following table lists the eight IFRS that are in effect at September 1, 2008.

Table-1.1Current State of IFRS

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments

1.8 Recommendations and Concluding Remarks

Ensuring high-quality corporate financial reporting environment depends on effective enforcement mechanisms. Merely adopting international accounting and auditing standards is not enough.

Three important links exist in the enforcement sequence:

a. Directors and top management must ensure that financial statements are prepared in compliance with established standards.

b. Auditors must act independently and judiciously to ensure that financial statements comply with applicable accounting standards and represent a true and fair position of the enterprise's financial condition.
c. Regulators, both self-regulatory organizations and statutory regulators, must implement arrangements for efficient monitoring of regulatory compliance and consistently take appropriate actions against violators.

Establishment of Financial Monitoring Board

The government is under the process of establishing an independent oversight body named "Financial Reporting Council" to shoulder the responsibility of setting accounting and auditing stand ards, monitoring compliance with accounting standards, reviewing auditors' practice and reviewing reporting practices and enforcing sanctions for violations. The government should ensure capacity and effectiveness of this regulatory regime to provide a real sense of security to stakeholders.

The board should focus on technically qualified personnel, practical training of inspectors/reviewers, administrative support, and necessary logistics arrangements. The IFRS enforcement bodies should immediately enhance their expertise.

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