

International Standards and Practices for Accounting, Audit and Non-financial Disclosures

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Need for Accounting Standards

- Sound financial reporting structure is imperative for economic well-being and effective functioning of capital markets.
- It helps in mitigating risks, building investor confidence and putting scarce economic resources to their best use.
- Accounting Standards are a pillar on which the financial reporting structure of an economy stands.

Contd. ...2

Need for ASs (contd. ...)

- The Accounting Standards codify the best accounting practices.
- The objective of such codification is to reduce or eliminate alternative treatments to bring uniformity.
- These standards also tend to improve the transparency of financial statements.

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Importance of International Financial Reporting Standards (IFRSs)

- In the present era of globalisation and liberalisation, the world has become an economic village.
- A number of MNCs are establishing their businesses in various countries.
- The enterprises are increasingly accessing the global markets to fulfill their capital needs.

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Importance of IFRSs (contd. ...)

- The enterprises are getting their securities listed on the stock exchanges outside their country. Capital markets are, thus, becoming integrated.
- In such a scenario, there is a need for Financial Reporting Standards which are globally acceptable.
- IFRSs issued by the IASB have potential to become Global Financial Reporting Standards.
- The standards-setters around the world are either adopting or adapting IFRSs.

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World-wide acceptance of IFRSs

- Many countries, including all members of the European Union, require adoption of IFRSs for the first time from 2005
- Australia has adopted IFRSs from 2005.
- Other countries that have stopped developing national accounting standards and have adopted IFRSs are Bahrain, Croatia, Guatemala, Kenya, Mauritius, Nepal, Oman etc.
- Canada has indicated that it would converge with IASs/IFRSs from April 1, 2011.

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World-wide acceptance (contd. ...)

- China and Japan have agreed to converge with IFRSs
- The on-going convergence between IFRSs and US GAAPs is another important step towards the global acceptance of IFRSs.
- In India, Accounting Standards are being formulated on the basis of IASs/ IFRSs.
(Indian position, in detail, is discussed latter.)

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Major beneficiaries from IFRSs

- Groups that benefit from global acceptance of IFRSs are:
 - Multinational Companies
 - Companies interested in raising additional funds and trading in securities in stock exchanges of other countries
 - International accounting firms that need to develop expertise in the area of domestic financial accounting principles and related laws in the absence of uniform international standards
 - International intergovernmental organisations such as UN, EU, OECD etc. that require comparable financial information
 - Various developing and other countries that do not have comprehensive domestic standards
 - Global financial markets including stock exchanges.

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Challenges in Adopting/Adapting IFRSs

Legal and Regulatory Environment

- In certain cases, the legal and regulatory requirements may be at variance from IFRSs.
- In such cases, the same are required to be considered appropriately while adopting IFRSs.

For example, in India

- As per IAS 32, *Financial Instruments: Presentation*, preference shares that provide for mandatory redemption by the issuer are considered as liability, based on the substance, whereas as per the law, these are a part of equity.

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Challenges in Adopting/Adapting IFRSs

Legal and Regulatory Environment (contd.)

- The banking laws in India prohibit disclosure of certain information with a view to ensure confidentiality of clients whereas IAS 24, *Related Party Disclosures*, does not exempt disclosures of such related party transactions in case of banking institutions.
- IAS 27, *Consolidated and Separate Financial Statements*, defines the terms 'control' in a manner which is different from that followed in the definitions of the 'holding' and 'subsidiary' companies under section 4 of the Companies Act, 1956.

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Challenges of IFRSs (contd. ...)

Alternative Treatments

- In certain cases, the IFRSs allow alternative treatments.
- This affects comparability of financial information.

For example:

- IAS 19, *Employee Benefits*, allows the following options with regard to the treatment of actuarial gains and losses:
 - Immediate recognition in the profit and loss account in the year in which such gains and losses occur, or
 - adjust against the retained earnings, whereby the current year's profit and loss account is not affected at all, or

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Challenges of IFRSs (contd. ...)

Alternative Treatments (contd. ...)

- IAS 19, *Employee Benefits*, allows the following options
 - recognise a part of the actuarial gains and losses in the profit and loss account which exceeds the specified percentage (known as the 'corridor approach').

Corresponding Indian Accounting Standard does not allow any alternative and Actuarial Gains and Losses are required to be expensed immediately.

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Enforcement Mechanism in India

- Peer Review Board
- Disciplinary Committee
- Financial Reporting Review Board

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Thank you

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