Concept Paper on Convergence with IFRSs in India

The Institute of Chartered Accountants of India

Concept Paper on Convergence with IFRSs in India

The Institute of
Chartered Accountants of India

PREFACE

Convergence with International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs) (collectively referred to as IFRSs), issued by the International Accounting Standards Board (IASB) has gained momentum in recent years all over the World. More than 100 countries currently require or permit the use of or have a policy of convergence with IFRSs. Certain other countries have announced their intention to adopt IFRSs from a future date, e.g., Canada from the year 2011, and China from the year 2008. Financial Accounting Standards Board (FASB) of USA and IASB are also working towards the convergence of the US GAAPs and the IFRSs. The Securities & Exchange Commission (SEC) has mooted a proposal to permit filing of IFRS-compliant financial statements without requiring presentation of a reconciliation statement between US GAAPs and IFRSs in near future. In this scenario, India being an important emerging economy in the World, is yet to adopt the IFRSs. Internationally, insofar as cross-border investments are concerned, a non-IFRSs compliant country is perceived as an additional risk factor. Within India also, in recent times, the issue of convergence with IFRSs has been raised time and again at various forums.

Recognising the above scenario, the Council of the Institute of Chartered Accountants of India (ICAI), at its 259th meeting, held on May 2-4, 2006, expressed the view that the IFRSs may be adopted in toto at least for listed and large entities, also keeping in view the expected advantages such as saving in cost of capital for Indian entities raising capital abroad, saving in cost for such entities for not preparing separate set of financial statements, expected improvement in the image of Indian industry and the accounting profession in the eyes of the world, and increasing opportunities for Indian professionals abroad. In this context, the Council also noted that in respect of the recently issued Accounting Standards, there are hardly any divergence from the corresponding IFRSs and, accordingly, India is already progressing on the path of full convergence with IFRSs. To consider various issues involved in detail, the Council referred the matter to the Accounting Standards Board.

The Accounting Standards Board (ASB), at its 127th meeting, held on August 11, 2006, considered the matter and supported the Council's view that there would be several advantages of converging with IFRSs. The Board was, however, of the view that there were various implications of converging with IFRSs and that certain issues were required to be addressed such as the conflicting legal and regulatory requirements related to financial statements, the technical preparedness of industry and accounting professionals, economic environment prevailing in the country, etc. The Board was also of the view that convergence with IFRSs would be an important policy decision as it would significantly affect not only the status of accounting discipline in the country but would also affect its economy. The Board was, therefore, of the view that before taking any decision on the matter, it would be useful to develop a Concept Paper which could be discussed with various interest-groups involved including the government, the National Advisory

Committee on Accounting Standards, regulators, and industry associations. The Board, accordingly, decided to constitute a Task Force to prepare the Concept Paper on Convergence with IFRSs with the objective of exploring:

(i) the approach for achieving convergence with IFRSs, and

(ii) laying down a road map for achieving convergence with IFRSs with a view to make India IFRS-compliant.

The Accounting Standards Board in consultation with the then President of the ICAI, constituted the Task Force on October 15, 2006, with the following members:

1.	CA. S.C. Vasudeva	(The then Chairman, ASB, as the Convenor of the Task Force)
2.	CA. Jayant Gokhale	(The then Vice-Chairman, ASB)
3.	CA. N.P. Sarda	Past President, ICAI
4.	CA. V. Rajaraman	Past President, ICAI
5.	CA. T.V. Mohandas Pai	Member of Trustees of the International Accounting Standards Committee Foundation (IASCF)
6.	CA. Shailesh Haribhakti	Member – Standards Advisory Council of the International Accounting Standards Board
7.	CA. Uday Phadke	Nominee on the ASB from Confederation of Indian Industries (CII)
8.	CA. Dolphy D'Souza	Alternate Nominee on the ASB from Federation of Indian Chambers of Commerce & Industry (FICCI)
9.	Shri P.R. Ravi Mohan	Nominee of the Reserve Bank of India on the ASB
10.	Dr. Kamal Gupta	Former Technical Director, ICAI
11.	Prof. S. Sundararajan	Indian Institute of Management, Bangalore
12.	CA. Amal Ganguli	Senior Chartered Accountant

The technical support to the Task Force was provided by Dr. Avinash Chander, Technical Director and Secretary, Accounting Standards Board, Ms. Anuradha Jain, Deputy Director (Technical) and Ms. Poonam Popli, Management Trainee.

The Task Force held five meetings and submitted the Concept Paper to the Accounting Standards Board at its 133rd meeting held on June 12-13, 2007, at Mumbai.

The Accounting Standards Board held detailed deliberations on the same and submitted the Concept Paper to the Council for its consideration. The Council considered the Concept Paper at its 269th meeting held on July 18-20, 2007 and accepted, in principle, the recommendations contained in the Concept Paper. However, the Council decided that certain suggestions related to matters which were made by the Council members should be considered by the Accounting Standards Board. The Council authorised the Board to finalise the Concept Paper in the light of the suggestions and release the same to various stakeholders. The Board, accordingly, considered the suggestions of the Council at its 134th meeting held on July 30-31, 2007, and has finalised this Concept Paper.

The Concept Paper comprises a chapter on Introduction and Background containing the need and effectiveness for convergence with IFRSs, the objective of convergence and the meaning of convergence with IFRSs for the purposes of the Concept Paper. The second chapter evaluates the present status of Indian Accounting Standards, vis-à-vis, the International Financial Reporting Standards and identifies the major reasons for departure from the IFRSs. The third chapter lays down the strategy for convergence with IFRSs including the approach to be followed in this regard and the road map for convergence.

New Delhi
October 10, 2007

CA. Sunil H. Talati
President

EXECUTIVE SUMMARY

Introduction and Background

1. The International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) are increasingly being recognised as Global Reporting Standards. More than 100 countries such as countries of European Union, Australia, New Zealand, and Russia currently require or permit the use of IFRSs in their countries. Countries such as China and Canada have announced their intention to adopt IFRSs from 2008 and 2011 respectively. United States of America has also taken-up convergence projects with the IASB with a view to permit filing of IFRS-Compliant Financial Statements in the US Stock Exchanges without requiring the presentation of reconciliation statement. In view of the benefits of convergence with IFRSs to the Indian economy, its investors, industry and the accounting professionals (see paragraphs 1.6 to 1.9), the Concept Paper has been developed with the objective of exploring:

(a) the approach for achieving convergence with IFRSs, and

(b) laying down a roadmap for achieving convergence with the IFRSs with a view to make India IFRS-compliant

2. Presently, the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) formulates Accounting Standards (ASs) based on the IFRSs keeping in view the local conditions including legal and economic environment, which have recently been notified by the Central Government under the Companies Act, 1956. Accordingly, the ASs depart from the corresponding IFRSs to maintain consistency with legal, regulatory and economic environment, and keeping in view the level of preparedness of the industry and the accounting professionals. In some cases, departures are made on account of conceptual differences with the treatments prescribed in the IFRSs.

Summary of Convergence Strategy

3. Keeping in view the complex nature of IFRSs and the extent of differences between the existing ASs and the corresponding IFRSs and the reasons therefor, the ICAI is of the view that IFRSs should be adopted for the public interest entities such as listed entities, banks and insurance entities and large-sized entities from the accounting periods beginning on or after 1st April, 2011. The countries which have adopted IFRSs have done so for similar types of entities (see paragraphs 3.7 to 3.11).

4. The criteria for public interest entities should broadly be the same as that for the existing Level I entities criteria prescribed by ICAI except that keeping in view the complex nature of

IFRSs, the limits of turnover be increased from Rs. 50 crore to Rs. 100 crore and that of borrowings from Rs. 10 crore to Rs. 25 crore (see paragraphs 3.3 and 3.4).

5. In respect of entities other than public interest entities (termed as 'small and medium-sized entities' (SMEs)), a separate standard for SMEs may be formulated based on the IFRS for Small and Medium-sized Enterprises when finally issued by the IASB, after modifications, if necessary. Compliance with this IFRS for SMEs is not necessary to make India IFRS-compliant (see paragraphs 3.5 and 3.6).

6. The format of IFRSs to be adopted for public interest entities should be the same as that of IFRSs, including their numbers. The numbers of the existing Accounting Standards may be given in brackets for the purpose of easier identification. Wherever required, a section may be added at the end of the adopted IFRS indicating the Indian legal and regulatory position (see paragraph 3.12). The IFRSs when adopted will also take into account the International Financial Reporting Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. Only in rare circumstances of public interest a carve out from an IFRS may be made.

7. With a view to achieve smooth transition to IFRSs from 1st April, 2011, all stakeholders in the standards-setting process, namely, the ICAI, the Government and the regulators (see paragraph 3.21), reporting entities (see paragraph 3.22) and the industry-associations (see paragraph 3.23) should ensure creating necessary infrastructure and environment.

8. The ICAI should continue to issue Accounting Standards in conformity with IFRSs which have, at present, reached advanced stage of formulation. In respect of those existing Accounting Standards which need revision due to revision of the corresponding IFRSs by IASB, and do not have any conceptual differences with IFRSs or any legal or regulatory implications, should also be revised on priority basis. In this regard, the ASB may consider in-depth its work plan as to which of these accounting standards are capable of being revised/issued keeping in view various factors such as extent of changes required. The ASB should resolve conceptual differences with the IASB as soon as possible. The ICAI should also play the role of educator/trainer to prepare its members for adoption of IFRSs from 1st April, 2011 by revising the curriculum of Chartered Accountancy Course, holding continuing professional education workshops, and preparation of educational material. The ICAI should initiate dialogue with the Government and regulators to bring about changes in laws and regulations before 1st April, 2011 (see paragraphs 3.14 to 3.20).

9. In the Post-Convergence scenario, the ASB of ICAI will have to play role (i) in formulation of IFRS-equivalent Indian Accounting Standards and (ii) influencing IFRSs before finalisation. Insofar as the role in formulation of IFRS-equivalent Accounting Standards is concerned, the ASB should undertake one or more of the following processes in adopting IFRSs:

(a) determine whether each IFRS meets specified criteria set out in local legislation/regulations;

(b) endorse the IFRSs in the form of IFRS-equivalent Indian Accounting Standards for the local regulatory framework with changes such as removing optional treatments and adding disclosure requirements, where appropriate, as this does not involve non-compliance with IFRS. In rare circumstances, it may be necessary carving out of the IFRS requirements keeping in view the existing local conditions in the public interest;

(c) present the Indian Accounting Standards so developed for approval of NACAS for the purpose of Government notification.

Insofar as the role of ASB in influencing IFRSs before their finalisation in the post-convergence scenario is concerned, the ASB will have to play a greater role in the IASB by sending comments on various discussion papers, exposure drafts of IFRSs, involve industry and other stakeholders in the formulation of comments, identify experts who can be selected on the IASB, send ASB staff on secondment basis or otherwise to participate in the IASB projects, consider issues for interpretation of IFRSs and refer the same to IFRIC and in case the IFRIC does not take any project on its agenda, provide guidance to its members and others (see paragraph 3.24).

1

INTRODUCTION AND BACKGROUND

1.1 A financial reporting system supported by strong governance, high quality standards, and firm regulatory framework is the key to economic development. Indeed, sound financial reporting standards underline the trust that investors place in financial reporting information and thus play an important role in contributing to the economic development of a country. The Institute of Chartered Accountants of India (ICAI) as the accounting standards-formulating body in the country, has always made efforts to formulate high quality Accounting Standards and has been successful in doing so. Indian Accounting Standards have withstood the test of time. As the world continues to globalise, discussion on convergence of national accounting standards with International Financial Reporting Standards (IFRSs)[1] has increased significantly.

1.2 The forces of globalisation prompt more and more countries to open their doors to foreign investment and as businesses expand across borders the need arises to recognise the benefits of having commonly accepted and understood financial reporting standards. In this scenario of globalisation, India cannot insulate itself from the developments taking place worldwide. In India, so far as the ICAI and the Governmental authorities such as the National Advisory Committee on Accounting Standards established under the Companies Act, 1956, and various regulators such as Securities and Exchange Board of India and Reserve Bank of India are concerned, the aim has always been to comply with the IFRSs to the extent possible with the objective to formulate sound financial reporting standards. The ICAI, being a member of the International Federation of Accountants (IFAC), considers the IFRSs and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India. The *Preface to the Statements of Accounting Standards*, issued by the ICAI, categorically recognises the same. Although, the focus has always been on developing high quality standards, resulting in transparent and comparable financial statements, deviations from IFRSs were made where it was considered that these were not consistent with the laws and business environment prevailing within the country. Now, as the world globalises, it has become imperative for India also to make a formal strategy for convergence with IFRSs with the objective to *harmonise with globally accepted accounting standards*.

---

[1] The term International Financial Reporting Standards is used in this Concept Paper to encompass International Accounting Standards (IASs) promulgated by the International Accounting Standards Committee (IASC) – the predecessor body of the International Accounting Standards Board (IASB) which issues IFRSs.

Need for Convergence with IFRSs

1.3 In the present era of globalisation and liberalisation, the World has become an economic village. The globalisation of the business world and the attendant structures and the regulations, which support it, as well as the development of e-commerce make it imperative to have a single globally accepted financial reporting system. A number of multi-national companies are establishing their businesses in various countries with emerging economies and *vice versa*. The entities in emerging economies are increasingly accessing the global markets to fulfill their capital needs by getting their securities listed on the stock exchanges outside their country. Capital markets are, thus, becoming integrated consistent with this World-wide trend. Appendix I contains a list of stock exchanges in different countries indicating the extent of foreign entities listed on these stock exchanges. More and more Indian companies are also being listed on overseas stock exchanges. Sound financial reporting structure is imperative for economic well-being and effective functioning of capital markets.

1.4 The use of different accounting frameworks in different countries, which require inconsistent treatment and presentation of the same underlying economic transactions, creates confusion for users of financial statements. This confusion leads to inefficiency in capital markets across the world. Therefore, increasing complexity of business transactions and globalisation of capital markets call for a single set of high quality accounting standards. High standards of financial reporting underpin the trust investors place in financial and non-financial information. Thus, the case for a single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with IFRSs. Amongst others, countries of the European Union, Australia, New Zealand and Russia have already adopted IFRSs for listed enterprises. China has decided to adopt IFRS from 2008 and Canada from 2011. Insofar as US is concerned, Financial Accounting Standards Board (FASB) of USA and IASB are also working towards convergence of the US GAAPs and the IFRSs. The Securities & Exchange Commission (SEC) has mooted a proposal to permit filing of IFRS-compliant financial statements without requiring presentation of a reconciliation statement between US GAAPs and IFRS in near future. Appendix II contains list of countries which require or permit the use of IFRSs for various types of the entities such as listed entities, banks etc.

Benefits of achieving convergence with IFRSs

1.5 There are many beneficiaries of convergence with IFRSs such as the economy, investors, industry and accounting professionals.

The Economy

1.6 As the markets expand globally the need for convergence increases. The convergence benefits the economy by increasing growth of its international business. It facilitates maintenance of orderly and efficient capital markets and also helps to increase the capital formation and thereby economic growth. It encourages international investing and thereby leads to more foreign capital flows to the country.

Investors

1.7 A strong case for convergence can be made from the viewpoint of the investors who wish to invest outside their own country. Investors want the information that is more relevant, reliable, timely and comparable across the jurisdictions. Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards. For better understanding of financial statements, global investors have to incur more cost in terms of the time and efforts to convert the financial statements so that they can confidently compare opportunities. Investors' confidence would be strong if accounting standards used are globally accepted. Convergence with IFRSs contributes to investors' understanding and confidence in high quality financial statements.

The industry

1.8 A major force in the movement towards convergence has been the interest of the industry. The industry is able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards. With the diversity in accounting standards from country to country, enterprises which operate in different countries face a multitude of accounting requirements prevailing in the countries. The burden of financial reporting is lessened with convergence of accounting standards because it simplifies the process of preparing the individual and group financial statements and thereby reduces the costs of preparing the financial statements using different sets of accounting standards.

The accounting professionals

1.9 Convergence with IFRSs also benefits the accounting professionals in a way that they are able to sell their services as experts in different parts of the world. The thrust of the movement towards convergence has come mainly from accountants in public practice. It offers them more opportunities in any part of the world if same accounting practices prevail throughout the world. They are able to quote IFRSs to clients to give them backing for recommending certain ways of reporting. Also, for accounting professionals in industry as well as in practice, their mobility to work in different parts of the world increases.

The Objective of the Concept Paper

1.10 The prerequisite for achieving convergence successfully is to lay down the convergence strategy including the roadmap for achieving convergence in a systematic and consistent way keeping in view the legal, economic and other pecularities of the country. This Concept Paper is the first step in this direction in India with the objective of exploring:

(i) the approach for achieving convergence with IFRSs, and

(ii) laying down a road map for achieving convergence with IFRSs, with a view to make India IFRS-compliant.

Meaning of 'Convergence' with IFRSs

1.11 Before discussing the contours of the convergence strategy with a view to meet the above mentioned objectives, the word 'convergence' needs to be clearly understood.

1.12 In general terms, 'convergence' means to achieve harmony with IFRSs; in precise terms convergence can be considered *"to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRSs".* In this context, attention is drawn to paragraph 14 of International Accounting Standard (IAS) 1, *Presentation of Financial Statements*, which states that financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs. It does not imply that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRSs only when IFRSs are adopted word by word. The IASB accepts in its *'Statement of Best Practice: Working Relationships between the IASB and other Accounting Standards-Setters'* that "adding disclosure requirements or removing optional treatments does not create non-compliance with IFRSs. Indeed, the IASB aims to remove optional treatments from IFRSs." This makes it clear that if a country wants to add a disclosure that is considered necessary in the local environment, or removes an optional treatment, this will not amount to non-compliance with IFRSs. Thus, for the purpose of this Concept Paper, 'convergence with IFRSs' means adoption of IFRSs with the aforesaid exceptions, where necessary.

1.13 For a country to be IFRS-compliant, it is not necessary that IFRSs are applied to all entities of different sizes and of different public interests. Even the IASB recognises that IFRSs are suitable for publicly accountable entities. The IASB has, therefore, recently issued an Exposure Draft of an IFRS for Small and Medium-sized Entities (SMEs).

2

PRESENT STATUS OF INDIAN ACCOUNTING STANDARDS

2.1 The Council of the Institute of Chartered Accountants of India constituted the Accounting Standards Board on 21st April, 1977, to formulate Accounting Standards applicable to Indian enterprises. Initially, the Accounting Standards were recommendatory in nature. After gaining sufficient experience, the Council of the Institute gradually started making the Accounting Standards mandatory for its members, i.e., requiring the members to report on whether an enterprise subject to audit had followed a mandatory Accounting Standard[2]. The legal recognition to the Accounting Standards was accorded for the companies in the Companies Act, 1956, by introduction of section 211(3C) through the Companies (Amendment) Act, 1999, whereby it is required that the companies shall follow the Accounting Standards notified by the Central Government on a recommendation made by the National Advisory Committee on Accounting Standards (NACAS) constituted under section 210A of the said Act. The proviso to section 211(3C) provides that until the Accounting Standards are notified by the Central Government the Accounting Standards specified by the Institute of Chartered Accountants of India shall be followed by the companies. The Government of India, Ministry of Company Affairs (now Ministry of Corporate Affairs), issued Notification dated December 7, 2006, prescribing Accounting Standards 1 to 7 and 9 to 29 as recommended by the Institute of Chartered Accountants of India, which have come into effect in respect of the accounting periods commencing on or after the aforesaid date with the publication of these Accounting Standards in the Official Gazette. It may be mentioned that the Accounting Standards notified by the Government are virtually identical with the Accounting Standards, read with the Accounting Standards Interpretations, issued by the Institute of Chartered Accountants of India.

2.2 The Reserve Bank of India (RBI), being the regulator of banks in India, requires all the banks, through its circulars/guidelines, to follow the Accounting Standards issued by the Institute of Chartered Accountants of India. Further, the Securities and Exchange Board of India (SEBI), through the Listing Agreement with stock exchanges, requires all listed entities to comply with the Accounting Standards issued by the Institute. Also, the Insurance

---

[2] Initially, Accounting Standard (AS) 4, *Contingencies and Events Occurring After the Balance Sheet Date*, and Accounting Standard (AS) 5, *Net Profit or Loss for the Period, Prior Periods Items and Changes in Accounting Policies,* were made mandatory in respect of accounting periods commencing on or after 1.1.1987. Five more Accounting Standards, namely, AS 1, AS 7, AS 8, AS 9, and AS 10 were made mandatory from 1st April, 1991. Thereafter, Accounting Standards were generally made mandatory on the dates indicated in the standards themselves upon their issuance.

Regulatory and Development Authority (IRDA), which regulates the financial reporting practices of insurance companies under the Insurance Regulatory and Development Authority Act, 1999, through IRDA (Preparation of Financial Statements and Auditor's Report of the Insurance Companies) Regulations, 2002, requires compliance with the Accounting Standards issued by the Institute of Chartered Accountants of India for preparing and presenting their financial statements by insurance companies.

2.3 Presently, the Accounting Standards Board (ASB) of the ICAI endeavors to formulate Indian Accounting Standards (ASs) on the basis of IFRSs as it has been categorically recognised in the *Preface to the Statements of Accounting Standards*, issued by the ICAI, that "The ICAI, being a full-fledged member of the International Federation of Accountants (IFAC), is expected, inter alia, to actively promote the International Accounting Standards Board's (IASB) pronouncements in the country with a view to facilitate global harmonisation of accounting standards. Accordingly, while formulating the Accounting Standards, the ASB will give due consideration to International Accounting Standards (IASs) issued by the International Accounting Standards Committee (predecessor body to IASB) or International Financial Reporting Standards (IFRSs) issued by the IASB, as the case may be, and try to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India." Accordingly, the Accounting Standards issued by the ICAI are based on the IFRSs. However, where departure from IFRS is warranted keeping in view the Indian conditions, the Indian Accounting Standards have been modified to that extent. The major differences between the two are indicated in the Appendix to the Accounting Standard itself, in respect of the recently issued/revised Accounting Standards. Further, the endeavour of the ICAI is not only to bridge the gap between Indian Accounting Standards and IFRSs by issuance of new Accounting Standards but also to ensure that the existing Indian Accounting Standards are in line with the changes in international thinking on various accounting issues. In this regard, the ICAI makes a conscious effort to bring the Indian Accounting Standards at par with the IFRSs, including the Interpretations issued by International Financial Reporting Interpretations Committee (IFRIC), by revising the existing Accounting Standards. Indeed, of late, in respect of certain recently issued/revised Indian Accounting Standards, no material difference exists between the Indian Accounting Standards and the IFRSs, for example, Accounting Standard (AS) 7, *Construction Contracts.*

2.4 Apart from the ICAI ensuring compliance with the IFRSs to the extent possible, the National Committee on Accounting Standards (NACAS) constituted by the Central Government for recommending accounting standards to the Government, while reviewing the Accounting Standards issued by the ICAI, considers the deviations in the Indian Accounting Standards, if any, from the IFRSs and recommends to the ICAI to revise the Accounting Standards wherever it considers that the deviations are not appropriate.

Reasons for departures from IFRSs

2.5 As has already been mentioned, the aim has always been to follow the IFRSs, to the extent possible, while formulating the Accounting Standards. However, deviations from IFRSs have been made due to various unavoidable reasons as discussed hereinafter.

To maintain consistency with the Legal and Regulatory Requirements

2.6 In some cases, the legal and regulatory requirements in India are at variance from the IFRSs and, therefore, in such cases, Indian Accounting Standards diverge from IFRSs because otherwise various legal problems may arise. For example, keeping in view the requirements of the law governing the companies in India, Accounting Standard (AS) 21, *Consolidated Financial Statements,* defines 'control' as ownership of more than one-half of the voting power of an enterprise or control over the composition of the governing body of an enterprise. This definition of 'control' is based on the definitions of 'holding company' and 'subsidiary company' as per the Companies Act, 1956. However, IAS 27, *Consolidated and Separate Financial Statements,* defines 'control' as "the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities". Similarly, Accounting Standard (AS) 25, *Interim Financial Reporting,* does not require disclosure and presentation of interim financial statements because, in India, at present, Clause 41 of the Listing Agreement prescribes a format of presentation of quarterly/half-yearly financial results and also requires various disclosures to be made therein. IAS 34, *Interim Financial Reporting,* prescribes various minimum disclosure and presentation requirements for interim financial statements.

2.7 It may, however, be mentioned that, of late, a practice has been started to include accounting treatments in accordance with IFRSs even though they are not consistent with the legal requirements with an understanding that until the law is amended, the relevant legal requirements would prevail. For instance, the Exposure Draft of the proposed Accounting Standard (AS) 31, *Financial Instruments: Presentation,* issued by the ICAI, proposes the same presentation requirements as those prescribed in IAS 32. However, it recognises that until the relevant laws are amended, the latter would prevail.

Economic environment

2.8 The economic environment of a country plays an important role in prescribing the accounting requirements applicable to various enterprises. For instance, while various IFRSs have been based on the fair value approach, there has been reluctance in India to adopt this approach in view of the fact that various markets in the country have not been considered to possess necessary depth and breadth providing reliable fair values on measurement of various assets and liabilities. For example, Accounting Standard (AS) 13, *Accounting for Investments*, requires current investments to be valued at the lower of cost and

fair value whereas the corresponding IAS 39, *Financial Instruments: Recognition and Measurement,* requires measurement of similar investments at fair value. It may, however, be mentioned that the ICAI, with changing economic environment in the country, is now proposing measurement of financial assets of trading nature at fair value in the Exposure Draft corresponding to IAS 39.

Level of preparedness

2.9 In a few stray cases, the Indian Accounting standards deviate from IFRSs because adoption of IFRSs verbatim may cause hardship to the industry and, to avoid the same, modifications are made in Accounting Standards until the industry is prepared for the IFRSs. For example, AS 15 (revised), *Employee Benefits,* permits deferment of expenditure incurred on account of termination of services arising in a voluntary retirement scheme for a transitional period, in view of the fact that the Indian industry was undergoing a structural change at the time when the standard was introduced, whereas the corresponding IAS 19, *Employee Benefits,* does not allow the deferment of such expenditure even as a transitional measure.

Conceptual differences

2.10 Apart from the above differences, there are a few conceptual differences between the Indian Accounting Standards and the IFRSs. For example, IAS 37 deals with 'constructive obligation' in the context of creation of a provision. The effect of recognising provision on the basis of constructive obligation is that, in some cases, provision will be required to be recognised at an early stage. For instance, in case of a restructuring, a constructive obligation arises when an enterprise has a detailed formal plan for the restructuring and the enterprise has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. It is felt that merely on the basis of a detailed formal plan and announcement thereof, it would not be appropriate to recognise a provision since a liability cannot be considered to be crystallized at this stage. Further, the judgment whether the management has raised valid expectations in those affected may be a matter of considerable argument. In view of this, the corresponding Indian accounting standard, viz., AS 29, does not specifically deal with 'constructive obligation'. AS 29, however, requires a provision to be created in respect of obligations arising from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. In such cases, general criteria for recognition of provision are required to be applied.

2.11 Appendix III to this Concept Paper contains major departures as classified on the basis of the above reasons, in the Indian Accounting Standards from the corresponding IFRSs.

3

STRATEGY FOR CONVERGENCE WITH IFRSS

3.1 Formulation of convergence strategy to achieve the objective specified in Chapter 1 requires cognisance of reasons for departure of Indian Accounting Standards from the corresponding IFRSs as discussed in the previous chapter as well as the complexity of the recognition and measurement requirements and the extent of disclosures required in the IFRSs with a view to enforce these on various types of entities, viz., public interest entities and other than public interest entities (hereinafter referred to as 'small and medium-sized entities').

Convergence with IFRSs – Public Interest Entities

3.2 Various IFRSs were examined from the point of view of their complexities in terms of recognition and measurement requirements and the extent of disclosures required therein to consider their application to various types of entities. It is noted that those countries which have already adopted IFRSs, i.e., countries which are fully IFRS-compliant, have done so primarily for public interest entities including listed and large-sized entities. It is also noted that the International Accounting Standards Board also considers that the IFRSs are applicable to public interest entities in view of the fact that it has recently issued an Exposure Draft of a proposed IFRS for Small and Medium-sized Entities[3]. The ICAI, therefore, is of the view that India should also become IFRS compliant only for public interest entities.

3.3 With a view to determine which entities should be considered as public interest entities for the purpose of application of IFRSs, the criteria for Level I enterprises as laid down by the Institute of Chartered Accountants of India[4] and the definition of 'small and medium-sized company' as per Clause 2(f) of the Companies (Accounting Standards) Rules, 2006, as notified by the Ministry of Company Affairs (now Ministry of Corporate Affairs) in the Official Gazette dated December 7, 2006, were considered. The ICAI is of the view that in view of the complexity of recognition and measurement principles and the extent of disclosures required in various IFRSs, and the fact that about four years have elapsed since the ICAI laid down the criteria for Level I enterprises, as far as the size is concerned, it needs a revision. Accordingly, the ICAI is of the view that a public interest entity should be an entity:

[3] IASB has left the criteria for deciding small and medium-sized entities to the individual jurisdictions.

[4] Announcement on 'Applicability of Accounting Standards (with reference to small and medium-sized enterprises)' published in the Chartered Accountant (November 2003).

(i) whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India; or

(ii) which is a bank (including a cooperative bank), financial institution, a mutual fund, or an insurance entity; or

(iii) whose turnover (excluding other income) **exceeds rupees one hundred crore** in the immediately preceding accounting year; or

(iv) which has public deposits and/or borrowings **from banks and financial institutions in excess of rupees twenty five crore** at any time during the immediately preceding accounting year; or

(v) which is a holding or a subsidiary of an entity which is covered in (i) to (iv) above.

3.4 It was considered whether it would be appropriate not to apply full IFRSs to listed entities which do not fulfill the minimum turnover and/or borrowings criteria recommended in paragraphs 3.3 (iii) and/or 3.3 (iv) in view of the fact that other entities which do not fall in these criteria would not be required to follow IFRSs. The ICAI is of the view that once an entity gets listed on a stock exchange it assumes the character of a public interest entity and, therefore, it would not be appropriate to exempt such entities from the application of IFRSs. Similarly, a bank, a financial institution, a mutual fund, an insurance entity and holding or subsidiary of a public interest entity also assumes the character of a public interest entity.

Accounting Standards for Small and Medium-sized Entities

3.5 Once the IFRSs are applied to entities identified in paragraph 3.3 above, an issue arises as to which Accounting Standards should be applicable to entities which are not covered by paragraph 3.3 (i.e., 'Small and Medium-sized Entities' (SMEs)). The following three alternatives were considered:

(i) The IFRSs should be modified to provide exemptions/relaxations as has been done in the existing Accounting Standards issued by the ICAI/notified by the Government of India;

(ii) The existing Accounting Standards with exemptions/relaxations as at present, should continue to apply;

(iii) Apply the IFRS for SMEs (the Exposure Draft of which has been issued recently) with or without modifications to suit Indian conditions.

3.6 The ICAI is of the view that since the IASB itself recognises that the IFRSs are too onerous for small and medium-sized entities, it would not be appropriate to apply the IFRSs with exemptions/relaxations to SMEs. The ICAI is also of the view that to continue to apply

the existing Accounting Standards in India to SMEs with the existing exemptions/relaxations would not be appropriate as it would mean that the ICAI/the Government would have to keep on modifying the existing Accounting Standards as soon as a change is made in the corresponding IFRSs after considering the appropriateness thereof in the context of Indian SME conditions. The ICAI is, therefore, of the view that it may be appropriate to have a separate standard for SMEs. It was noted that the proposed IFRS for SMEs was still at the Exposure Draft stage and it may undergo changes when finally issued. Accordingly, whether the IFRS for SMEs should be adopted in toto or with modifications, should be examined when the said IFRS is finally issued. The ICAI is of the view that a separate standard for SMEs would be more useful from the following perspectives also:

(i) The small and medium-sized entities would not have to consider all the IFRSs which are too voluminous; and

(ii) it would ensure convergence, to the extent possible, with the proposed IFRS for Small and Medium-sized Entities being issued by IASB, even for this class of entities.

In this context, it is noted that in order to be an IFRS-compliant country, it is not necessary to adopt the IFRS for Small and Medium-sized Entities to be issued by IASB.

Whether the IFRSs should be adopted for Public Interest Entities stage-wise or all at once from a specified future date

3.7 The ICAI examined the IFRSs and the existing Accounting Standards with a view to determine the extent to which they differ from the IFRSs and the reasons therefor to identify which IFRSs can be adopted in near future, which IFRSs can be adopted after resolving conceptual differences with the IASB, which IFRSs can be adopted after the industry and the profession is ready in terms of the technical skills required, and which IFRSs can be adopted after the relevant laws and regulations are amended. On the basis of this examination, the ICAI has classified various IFRSs into the following five categories:

Category I - **IFRSs which do not involve any legal or regulatory issues nor have any issues with regard to their suitability in the existing economic environment, preparedness of industry and any conceptual differences from the Indian Accounting Standards.** This category has further been classified into two parts as follows:

Category I A - **IFRSs which can be adopted immediately as these do not have any differences with the corresponding Indian Accounting Standards.** The following IFRSs have been identified in this category:

- IAS 11, Construction Contracts
- IAS 23, Borrowing Costs

<u>Category I B</u> **- IFRSs which can be adopted in near future as there are certain minor differences with the corresponding Indian Accounting Standards.** The following IFRSs have been identified in this category:

- IAS 2 Inventories
- IAS 7,Cash Flow Statements
- IAS 20, Accounting for Government Grants and Disclosure of Government Assistance
- IAS 33, Earnings Per Share
- IAS 36, Impairment of Assets
- IAS 38, Intangible Assets

<u>Category II</u> **- IFRSs which may require some time to reach a level of technical preparedness by the industry and professionals keeping in view the existing economic environment and other factors.** This category also includes those IFRSs corresponding to which Indian Accounting Standards are under preparation/revision. The following IFRSs have been identified in this category:

- IAS 18, Revenue
- IAS 21,The Effects of Changes in Foreign Exchange Rates
- IAS 26, Accounting and Reporting by Retirement Benefit Plans
- IAS 40, Investment Property (Corresponding Indian Accounting Standard is under preparation)
- IFRS 2, Share-based Payment (Corresponding Indian Accounting Standard is under preparation)
- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (Corresponding Indian Accounting Standard is under preparation)

<u>Category III</u> **- IFRSs which have conceptual differences with the corresponding Indian Accounting Standards.** This category has further been divided into two parts as follows:

<u>Category III A</u> **- IFRSs having conceptual differences with the corresponding Indian Accounting Standards that should be taken up with the IASB.** The following IFRSs have been identified in this Category:

- IAS 17,Leases

- IAS 19, Employee Benefits
- IAS 27,Consolidated and Separate Financial Statements
- IAS 28, Investments in Associates
- IAS 31, Interests in Joint Ventures
- IAS 37, Provisions, Contingent Liabilities and Contingent Assets

Category III B - **IFRSs having conceptual differences with the corresponding Indian Accounting Standards that need to be examined to determine whether these should be taken up with the IASB or should be removed by the ICAI itself.** The following IFRSs have been identified in this Category:

- IAS 12, Income Taxes
- IAS 24, Related Party Disclosures
- IAS 41, Agriculture (Corresponding Indian Accounting Standard is under preparation)
- IFRS 3, Business Combinations
- IFRS 6, Exploration for and Evaluation of Mineral Resources
- IFRS 8, Operating Segments

Category IV - **IFRSs, the adoption of which would require changes in laws/regulations because compliance with such IFRSs is not possible until the regulations/laws are amended.** The following IFRSs have been identified in this Category:

- IAS 1, Presentation of Financial Statements
- IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10, Events After the Balance Sheet Date
- IAS 16, Property, Plant and Equipment
- IAS 32, Financial Instruments: Presentation (Exposure Draft of the Corresponding Indian Accounting Standard has been issued)
- IAS 34, Interim Financial Reporting
- IAS 39, Financial Instruments: Recognition and Measurement (Exposure Draft of the Corresponding Indian Accounting Standard has been issued)
- IFRS 1, First-time Adoption of International Financial Reporting Standards
- IFRS 4, Insurance Contracts
- IFRS 7, Financial Instruments: Disclosures

<u>Category V</u> - IFRSs corresponding to which no Indian Accounting Standard is required for the time being. However, the relevant IFRSs, when adopted upon full convergence, can be used as the "fallback" option where needed.

- IAS 29, Financial Reporting in Hyper-inflationary Economies

Convergence with IFRS – Stage-wise Approach

3.8 The ICAI examined whether convergence with IFRSs can be achieved stagewise as below:

Stage I: *Convergence with IFRSs falling in Category I immediately*

Stage II: *Convergence with IFRSs classified in Category II and Category III after a certain period of time, say, 2 years after various stakeholders have achieved the level of technical preparedness and after conceptual differences are resolved with the IASB.*

Stage III: *Convergence with IFRSs classified in Category IV only after necessary amendments are made in the relevant laws and regulations.*

Stage IV: *Convergence with IFRSs classified in Category V by way of adoption on full convergence.*

3.9 The ICAI considered in-depth the stage-wise adoption approach and its views thereon are as below:

(i) If some IFRSs are adopted in the initial stages and the other IFRSs are adopted later, this may result in mis-match between the requirements of the adopted IFRSs in the first stage and the accounting standards issued by ICAI/notified, corresponding to those IFRSs which are not adopted. This is because many accounting standards are inter-related.

(ii) Another problem can be that IFRSs adopted in one stage may not be possible to be implemented fully until the adoption of the IFRSs to be adopted at the later stage in view of their inter-relationship.

(iii) Even, at present, it is found that when one IFRS is adopted, it results in a number of changes in the corresponding Indian Accounting Standards. For example, the issuance of ED of AS 30, *'Financial Instruments: Recognition and Measurement'*, corresponding to IAS 39, *'Financial Instruments: Recognition & Measurement'*, has resulted in proposed limited revisions to many other accounting standards such as AS 2, AS 11, AS 13, AS 21, AS 23, AS 27, AS 28 and AS 29. Such an approach is fraught with the danger of missing out certain minute aspects in other standards which may also require revision.

(iv) Further changes in IFRSs will also make the process more complex as with every revision in IFRS, revisions may be required in the existing Accounting Standards apart from the changes in the adopted IFRSs. Though IASB has decided not to issue any revised IFRS or new IFRS effective till January 1, 2009, but after that date this problem will become acute.

Convergence with IFRS – All-at-once Approach

3.10 In view of the above difficulties, the ICAI is of the view that it would be more appropriate to adopt all IFRSs from a specified future date as has been done in many other countries. After considering the current economic environment, expected time to reach the satisfactory level of technical preparedness and the expected time to resolve the conceptual differences with the IASB, **the ICAI has decided that IFRSs should be adopted for public interest entities from the accounting periods commencing on or after 1st April, 2011.** This will give enough time to all the participants in the financial reporting process to help in building the environment supporting the adoption of IFRSs. Insofar as the legal and regulatory aspects are concerned, the ICAI is of the view that, on adoption of those IFRSs, having certain requirements in conflict with the laws/regulations, the latter will prevail. The ICAI is further of the view that this approach is appropriate because to wait for full convergence until the relevant laws/regulations are amended would not be practicable as such amendments may not take place for many years.

3.11 The ICAI also examined whether an entity should have a choice to become fully IFRS-compliant before 1st April, 2011. The ICAI is of the view that an early adoption of IFRSs should be encouraged. However, such an adoption should be for all IFRSs and that it cannot be on selective basis.

Format of converged Accounting Standards

3.12 The ICAI considered whether the existing Accounting Standards should be revised to make them fully compliant with IFRSs by the specified date or on the specified date the IFRSs themselves should be adopted. In either case, Indian-specific regulatory/legal aspects may be included in a separate section, where appropriate. The ICAI is of the view that it would be more cumbersome to follow the first approach, i.e., revising the Accounting Standards. Therefore, the second approach should be, i.e., IFRSs, including the IFRS numbers, should be adopted from the specified date of 1st April, 2011. The IFRSs should be issued as Indian ASs, which would be considered IFRS-equivalent. In order to facilitate reference to the existing Indian Accounting Standards, along with the IFRS number, in the brackets, the existing Accounting Standard number may also be given.

Role of various stakeholders to ensure convergence with IFRSs from the specified date, i.e., accounting periods commencing on or after 1st April, 2011

3.13 The following sections deal with the role of various stakeholders in the standard-setting process to ensure smooth transition to the IFRSs from 1st April, 2011, in respect of the listed and other public interest entities.

Role of the ASB of the ICAI

3.14 The ICAI considered whether it should altogether stop formulating Accounting Standards hereinafter in view of the fact that from 1st April, 2011, the IFRSs existing on that date would come into force for public interest entities. For SMEs, IFRS for SMEs may similarly become applicable, subject to examination as stated in paragraph 3.6. In this context, it is noted that, at present, the ICAI is in the process of formulating certain new accounting standards corresponding to the IFRSs such as Accounting Standard (AS) 30, *'Financial Instruments: Recognition and Measurement'*, and Accounting Standard (AS) 31, *'Financial Instruments: Presentation'*, and that Exposure Drafts in respect thereof have already been issued. It was also noted that certain existing Accounting Standards such as Accounting Standard (AS) 10, *'Accounting for Fixed Assets'*, is being revised and has reached advanced stage of issuance. The ICAI feels that to stop work on such Accounting Standards would deprive the country of converging with IFRSs before the specified date of 1st April, 2011. The ICAI is, therefore, of the view that it should continue to issue Accounting Standards in conformity with the corresponding IFRSs which have, at present, reached advanced stage of formulation even if they fall within Category IV. This would also make the transition to IFRSs from 1st April, 2011 smoother.

3.15 The ASB may consider revising Accounting Standards corresponding to IFRSs indicated in Category IB and Category II on priority basis. For this purpose, ASB may consider issuing a composite exposure draft of modifications in the Accounting Standards corresponding to the IFRSs listed in Category IB and issue exposure drafts of Accounting Standards corresponding to IFRSs falling in Category II so that by the time the convergence date arrives, in respect of these standards the country is already in convergence with IFRSs. While this is a broad suggestion, the ASB may consider in-depth its work plan as to which of these accounting standards are capable of being revised/issued keeping in view various factors such as extent of changes required. Another advantage of this process could be that certain International stock exchanges, say, London Stock Exchange, may decide to allow listing on their stock exchanges without requiring preparation of reconciliation statement even prior to 1st April, 2011. For instance, the London Stock Exchange may allow Indian companies to get listed without reconciliation statement from 1st April, 2009 in case the convergence in respect of Categories IB and II and the new accounting standards which are in the process of formulation are issued by that time.

3.16 The ASB of ICAI should take up the conceptual differences with the IASB in respect of IFRSs falling in Category III and it should resolve these differences as soon as possible by either convincing the IASB to modify IFRSs or to satisfy itself that the requirements in the concerned IFRSs are appropriate even in the Indian conditions.

3.17 In respect of IFRSs falling in Category IV, i.e., IFRSs the adoption of which would require changes in laws/regulations, the ICAI should initiate a dialogue with the relevant departments of the Government or the authorities set up by the Government such as the National Advisory Committee on Accounting Standards which formulate laws and with the relevant regulatory authorities to convince them that either the legal provisions/regulations related to recognition, measurement and disclosure requirements in the financial statements should be withdrawn by 1st April, 2011, or the same should be appropriately amended to ensure convergence with IFRSs.

3.18 The IASB has declared a stable platform for IFRSs upto January 1, 2009, i.e., the IASB will not make any IFRS effective before that date, which is issued prior to that date. Thus, after 1st January, 2009, the IASB may issue new IFRSs or revise the existing ones on frequent basis. The ASB of the ICAI should play a more effective role by sending comments on the discussion papers/Exposure Drafts of the proposed IFRSs. The ASB should also participate in the Round-tables organised by the IASB on various drafts of proposed new IFRSs/revised IFRSs. In other words, the ASB should play a greater role in influencing the future IFRSs. The ASB should also play a similar role in respect of the drafts of the Interpretations issued by the International Financial Reporting Committee (IFRIC). In this context, the section related to the 'Role of ASB of ICAI in Post-convergence Scenario' (see paragraph 3.24) may also be referred to.

3.19 The ASB can also play a greater role in influencing future IFRSs in the following ways:

(i) By identifying experts on IFRSs in India, who can be appointed on the IASB through the selection process followed by the IASB so that the Indian concerns are expressed at the Board level.

(ii) By nominating ASB staff on the IASB projects, on secondment basis or otherwise. The ICAI notes that IASB welcomes such participation as is evident from the fact that the staff of certain national standard-setters is presently involved in various IASB projects. Also, IASB's *Statement of Best Practices: Working Relationships between the IASB and other Standard-Setters* encourages the national standard-setters to do so (see also paragraph 3. 24(8)).

Role of ICAI as an educator/trainer

3.20 With a view to prepare its existing and prospective members for the impending adoption of the IFRSs from 1st April, 2011, the ICAI should formulate strategies with regard to the following:

(i) To revise the syllabi of the pre-qualification Chartered Accountancy Course to include IFRSs as a part of its curriculum;

(ii) The Continuing Professional Education (CPE) Committee and the Committee for Members in Industry should hold intensive workshops on IFRSs to train the members in practice as well as in industry. In order to encourage members to participate in the IFRS-specific workshops, the ICAI may consider laying down minimum CPE hours requirements in this regard, e.g., the ICAI may make it mandatory for its members to attend a minimum number, say, 50 CPE hours of workshops on IFRSs every year till 1st April, 2011 including those members who are in industry;

(iii) Preparation of educational material to guide its members on various intricacies involved in the implementation of IFRSs. The educational material may focus on those areas which are new compared to the existing Accounting Standards.

Role of the Government and Regulators

3.21 The ICAI considers that the Government and the Regulators should play the following role in making the country IFRS-compliant:

(i) The Government and the Regulators should establish legal and regulatory environments that provide for compliance with all the IFRSs.

(ii) The Government should frame/ revise laws in consultation with NACAS to reflect the IFRSs. Similarly, various Regulators should frame/revise regulations in consultation with ICAI. This should be considered as a high priority.

Role of Reporting Entities

3.22 The reporting entities to which IFRSs are recommended to be applied should prepare themselves in the following ways:

(i) All the affected entities should design and implement an IFRS transition programme and allocate the necessary resources. This includes obtaining the commitment from the top down, i.e., from those charged with governance to those responsible for financial reporting by individual business units. Also, they should consider the interdependencies between the transition to IFRSs and

other financial reporting projects, if any, such as compliance with laws and regulations.

(ii) The entities should prepare to implement IFRSs by identifying differences and addressing required financial reporting system changes.

(iii) The entities should design and implement plans to change management reporting system used to monitor the performance of the business from the previously applied Accounting Standards to IFRSs.

(iv) The entities should also provide IFRS training to staff at all levels affected by the transition to IFRSs.

(v) The entities should actively contribute to the international standard-setting process, in particular, to identify practical implementation issues.

(vi) The entities should consider at an early stage changes proposed by the Exposure Drafts of IFRSs with a view to gauge the potential impact thereof on their financial statements so that they are able to provide informed comments on the drafts to the IASB/ICAI.

Role of Industry Associations

3.23 Industry associations such as Federation of Indian Chambers of Commerce and Industry (FICCI), Associated Chambers of Commerce (Assocham) and Confederation of Indian Industries (CII) can also play an important role in preparing their constituents for the adoption of the IFRSs in the following ways:

(i) Holding round-tables on the Exposure Drafts of the IFRSs so that the views of the Association can be sent to the IASB/ICAI.

(ii) Conducting seminars/workshops on IFRSs for the industry participants to provide them appropriate training.

(iii) Provide industry-specific forums to their constituents to discuss the industry-specific issues in implementation of IFRSs.

Role of ASB in the post-convergence scenario

3.24 With regard to the role of ASB of the ICAI in the post-convergence scenario, the ICAI decided to generally endorse the role of the national standard-setters as envisaged in the *Statement of Best Practices: Working Relationships between the IASB and other Accounting Standard-setters,* issued by the IASB, as follows:

Role in formulation of IFRS- equivalent Indian Accounting Standards

1. ASB should undertake one or more of the following processes in adopting IFRSs:

   (a) determine whether each IFRS meets specified criteria set out in local legislation/regulations;

   (b) endorse the IFRS in the form of IFRS-equivalent Indian Accounting Standards for the local regulatory framework, with changes, if necessary, as mentioned at 2 and 3 below;

   (c) present the standards for approval of NACAS for the purpose of Government notification .

Therefore, adopting IFRSs would be an ongoing process.

2. In general, working with the Government and regulators for adoption/ implementation of IFRSs, including deciding in rare circumstances whether any carving out of the IFRS requirements in the existing local conditions is warranted in the public interest.

3. In some cases, as at present, the ASB may continue the policy of removing optional treatments and adding disclosure requirements to IFRSs when it believes that doing so provides more comparable and useful information in the country.

   When ASB makes any change to an IFRS, for example, adding a disclosure that is considered necessary in the local environment, or removing an optional treatment, this should be made clear so that users of the IFRS are aware of the changes.

   In some cases, certain changes in terminology in IFRS may be required keeping in view legal requirements, e.g., replacing the term 'true & fair' for 'present fairly', in IAS 1, '*Presentation of Financial Statements*'. Such changes do not lead to non-convergence with IFRS.

4. Inevitably, questions of interpretation will arise when IFRSs are applied. Accordingly, ASB should be familiar with the implementation of IFRSs in the country. This familiarisation process may involve, or depend upon, close liaison with local capital market and industry regulators. If ASB believes that an issue requires interpretation of IFRSs, it should request the IFRIC to address the issue. If IFRIC includes the matter for interpretation on its Agenda, interpretation/guidance on the matter should not be issued. If IFRIC does not include the matter on its Agenda, it issues reasons therefor including what a particular requirement of an IFRS means. This itself can provide guidance to various stakeholders.

The IFRIC or IASB staff may decide that an amendment to an IFRS is the more appropriate course to follow. As part of this process, other accounting standard-setters that face a common issue could work together to formulate a possible approach to the issue for resolution by the IFRIC or the IASB.

5. IFRSs are intended to apply worldwide regardless of local legislative and regulatory environments. However, some issues may relate to particular legislative or other local requirements. In these cases, ASB may decide to issue guidance. Care needs to be exercised, however, to ensure that the issues are not more widely relevant. In considering such issues, ASB should liaise with the IFRIC, and if it believes it is necessary to issue any guidance, it should avoid incompatibility with IFRSs.

Role of ASB in influencing IFRSs before their finalization

1. ASB should have a role in communicating IASB activities and outputs to the industry and other stakeholders through educational and promotional activities, including publishing or distributing IASB consultative documents in the jurisdictions, and in both providing the IASB with feedback on these activities and outputs themselves and encouraging them to provide feedback to the IASB.
2. ASB should encourage various stakeholders to comment on IASB consultative documents direct to the IASB as well as to the ASB.
3. Forums of communicating views other than comment letters are increasingly important in gathering views, including forums on specific issues. ASB should use these forums as a mechanism for encouraging the stakeholders to participate in the IASB's standard-setting process.
4. ASB can assist the IASB in identifying constituents who can be involved in round-table discussions and other forums and the issues of particular relevance to the stakeholders.
5. Without limiting the direct communication of ideas to the IASB, ASB has a role in communicating the views and ideas of the stakeholders to the IASB through the consultation process—providing a forum for views. Other organisations, such as representative bodies with an interest in financial reporting, may also contribute to this process. ASB should make its own submissions to the IASB on consultative documents and should convey its views to the IASB rather than provide merely a synthesis of the views expressed by the stakeholders.
6. ASB should make the IASB aware of any major conceptual differences of opinion it may have with a project as early as possible in the life of a project. This would require ASB to monitor closely the development of the project.
7. The IASB's work programme is a subject on which it would be particularly helpful for ASB to channel its views and those of the stakeholders in a

constructive manner. Since the IASB is unable to respond to every interested party's request to deal with a topic, ASB should seek the views of the stakeholders on work programme priorities and collect and summarise them for consideration by the IASB.

8. Direct involvement of ASB in the IASB's projects would help to ensure that a wide range of views and ideas are considered in the early stages of the development of a project.

   The IASB may provide opportunities to ASB to be directly involved with IASB projects in the following ways:

   (a) involvement in a 'research project' alone, or, in partnership with a team of other standard-setters (either as a leader of the team or as team member), under the guidance of IASB staff and selected Board advisers.

   (b) involvement of the ASB staff in a 'project team' on an active IASB project under the direction of the IASB directors.

9. ASB may conduct research or develop thinking on a topic that has not been identified by the IASB as a current priority, and then present the results of that work for consideration by the IASB and/or other national accounting standard-setters. For there to be an expectation that those materials would be considered there would need to be some advance agreement both that the topic is worthy of consideration and that the IASB and/or other standard-setters have a common interest in the topic.

10. The IASB would welcome offers of staff assistance from the ASB. To be effective, from both the IASB's perspective and that of the ASB, this involvement needs to be undertaken with a clear understanding of the staff member's role and responsibilities.

11. The IASB establishes working groups for some projects, and invites constituents to nominate candidates for membership of these groups. The working groups are a source of expert advice and ideas for the staff in progressing a particular project. ASB may be able to assist in the process of making nominations to, and in facilitating the operations of, working groups by identifying and encouraging suitable individuals to nominate themselves and, if appointed, to liaise actively with those individuals and assist them when needed.

12. The views of ASB can be a valuable source of independent thought in the development of IASB documents. ASB should provide comments to the IASB on consultative documents such as Exposure Drafts and Discussion Papers. If time does not permit ASB-level input, comment from staff of the ASB can be provided. If ASB is unable to comment on each consultative document it should focus on those projects that are of particular importance to the country, or those on which the ASB believes it can best contribute. It may also be helpful for ASB

to comment on other IASB documents, such as issues papers and draft Discussion Papers when it believes that the IASB would benefit from their input at an early stage.

Expectations from the IASB

3.25 To ensure smooth convergence with IFRSs, upto 2011 and thereafter also, IASB is also expected to play an important role as follows:

(a) Provide guidance on issues emerging on adoption of IFRSs on timely basis at least upto 2011.

(b) Address concerns about the complexity and structure of the international standards.

(c) Write standards in simple English that is understandable, clear and capable of translation and consistent application.

(d) In developing the IFRS and setting effective dates, be cognisant of the fact that the final standards are required to be translated in India for the purpose of Government Notification.

(e) In considering changes to the IFRS, be cognisant of the cost vs. the benefits of the proposed changes.

(f) Establish a process, or enhance the existing process to respond in a timely manner to requests for interpretations.

(g) Consider the development of implementation guidance.

****

Appendix I

Number of Companies Listed on Major World Stock Exchanges

(Excluding Investment Funds)

Exchange	2007									% Change / Mar. 06	2006 Mar.
	January			February			March				
	Total	Domestic Cies	Foreign Cies	Total	Domestic Cies	Foreign Cies	Total	Domestic Cies	Foreign Cies		
Americas											
American SE	580	483	97	580	483	97	578	481	97	-1.9%	589
Bermuda SE	54	16	38	52	16	36	52	16	36	-7.1%	56
Buenos Aires SE	106	101	5	106	101	5	107	102	5	2.9%	104
Colombia SE	94	94	0	96	96	0	96	96	0	-2.0%	98
Lima SE[1]	220	188	32	218	185	33	219	186	33	-1.8%	223
Maxican Exchange	334	131	203	329	130	199	330	130	200	6.5%	310
Nasdaq	3114	2795	319	3112	2794	318	3120	2792	328	-0.8%	3146
NYSE Group	2276	1825	451	2243	1792	451	2249	1798	451	1.4%	2218
Santiago SE	245	243	2	245	243	2	245	243	2	-0.4%	246
Sao Paulo SE	352	349	3	355	352	3	359	356	3	6.8%	336
TSX Group[2]	3843	3791	52	3858	3807	51	3868	3815	53	2.4%	3778
Asia – Pacific											
Australian SE	1827	1746	81	1833	1752	81	1839	1760	79	6.5%	1726
Bombay SE	4802	4802	0	4816	4816	0	4821	4821	0	0.8%	4781
Bursa Malaysia	1024	1020	4	1021	1017	4	1021	1017	4	-0.2%	1023
Colombo SE	237	237	0	237	237	0	237	237	0	0.9%	235
Hong Kong Exchanges	1172	1164	8	1176	1168	8	1180	1171	9	3.4%	1141
Jakarta SE	343	343	0	342	342	0	342	342	0	2.1%	335
Korea Exchange[3]	1689	1689	0	1702	1702	0	1702	1702	0	4.5%	1629
National Stock Exchange India	1183	1183	0	1206	1206	0	1126	1126	0	5.6%	1066
New Zealand Exchange	182	151	31	182	151	31	181	151	30	-1.6%	184
Osaka SE	465	464	1	469	468	1	475	474	1	-	
Philippine SE	240	238	2	239	237	2	239	237	2	0.4%	238
Shanghai SE	844	844	0	847	847	0	848	848	0	1.9%	832
Shenzhen SE	588	588	0	593	593	0	601	601	0	11.1%	541
Singapore Exchange[4]	709	461	248	713	463	250	715	463	252	5.8%	676
Taiwan SE Corp.	692	687	5	692	687	5	689	684	5	-1.0%	696
Thailand SE	519	519	0	519	519	0	520	520	0	3.0%	505
Tokyo SE	2416	2391	25	2419	2394	25	2413	2388	25	1.7%	2372
Europe – Africa – Middle East											
Athens Exchange	291	288	3	290	287	3	288	285	3	-3.7%	299
Borsa Italiana	310	281	29	310	281	29	311	282	29	10.7%	281
Budapest SE	41	41	0	41	41	0	40	40	0	-7.0%	43
Cairo & Alexandria SEs	592	592	0	572	572	0	565	565	0	-19.3%	700
Cyprus SE	141	141	0	141	141	0	140	140	0	-1.4%	142
Deutsche Börse[5]	758	654	104	757	654	103	755	655	100	0.1%	754
Euronext	1201	952	249	1200	950	250	1199	953	246	-2.4%	1228
Irish SE	68	57	11	69	58	11	70	59	11	7.7%	65
Istanbul SE	316	316	0	315	315	0	316	316	0	3.3%	306
JSE	387	358	29	390	361	29	393	363	30	5.4%	373
Ljubijana SE	99	99	0	98	98	0	NA	NA	NA	-	113
London SE	3246	2604	642	3236	2591	645	3245	2598	647	3.3%	3141
Luxembourg SE	256	35	221	257	35	222	275	35	240	10.0%	250
Malta SE	14	14	0	14	14	0	15	15	0	15.4%	13
Mauritius SE	66	65	1	67	66	1	67	66	1	109.4%	32
OMX[6]	795	769	26	822	797	25	799	773	26	17.5%	680
Oslo Bors	233	199	34	232	198	34	238	203	35	8.2%	220
Swiss Exchange	346	255	91	346	255	91	347	256	91	-4.1%	362
Tehran SE[7]	320	320	0	321	321	0	322	322	0	-21.1%	408
Tel Aviv SE	609	NA	NA	612	NA	NA	619	NA	NA	4.6%	592
Warsaw SE	268	255	13	291	278	13	293	281	12	22.6%	239
Wiener Börse	114	97	17	114	97	17	115	98	17	5.5%	109
Total	**40621**			**40695**			**NA**				

1 *Includes 26 foreign companies with shares negotiated under a special modality*

2 *TSX Group includes companies listed on TSX Venture*

3 *Korea Exchange includes Kosdaq market data*

4 *Main Board & Sesdaq*

5 *Excluding the market segment "Freiverkehr" (unofficial regulated market)*

6 *OMX includes Copenhagen, Helsinki, Iceland, Stockholm, Tallinn, Riga and Vilnius Stock Exchanges*

7 *Some 90 companies have been relegated to the "Unofficial Board" which is "temporary Board"*

NA : *Not Available*

Source : *World Federation of Exchanges members*

Appendix II

The following Table gives the names of the Countries which require or permit the use of the IFRSs by various entities like listed entities, banks etc.*

Sl. No.	Country Name	Sl. No.	Country Name
1	Armenia	28	Finland
2	Aruba	29	France
3	Austria	30	Germany
4	Australia	31	Georgia
5	Azerbaijan	32	Ghana
6	Bahamas	33	Gibraltar
7	Bahrain	34	Greece
8	Barbados	35	Guatemala
9	Belgium	36	Guyana
10	Bermuda	37	Haiti
11	Bolivia	38	Honduras
12	Bosnia & Herzegovina	39	Hong Kong
13	Botswana	40	Hungary
14	Bulgaria	41	Iceland
15	Cayman Islands	42	Ireland
16	China	43	Israel
17	Costa Rica	44	Italy
18	Croatia	45	Jamaica
19	Cyprus	46	Jordan
20	Czech Republic	47	Kazakhstan
21	Denmark	48	Kenya
22	Dominica	49	Kuwait
23	Dominican Republic	50	Kyrgyz Stan
24	Ecuador	51	Laos
25	Egypt	52	Latvia
26	EI Salvador	53	Lebanon
27	Estonia	54	Lesotho

* Compiled from the website www.iasplus.com

55	Liechtenstein	81	Qatar
56	Lithuania	82	Romania
57	Luxembourg	83	Russian Federation
58	Macau	84	Slovenia
59	Macedonia	85	Slovak Republic
60	Malawi	86	South Africa
61	Malta	87	Spain
62	Mauritius	88	Suriname
63	Mexico	89	Sweden
64	Morocco	90	Swaziland
65	Myanmar	91	Switzerland
66	Namibia	92	Tajikistan
67	Netherlands	93	Tanzania
68	Netherlands Antilles	94	Trinidad and Tobago
69	Nepal	95	Turkey
70	New Zealand	96	Uganda
71	Nicaragua	97	Ukraine
72	Norway	98	United Kingdom
73	Oman	99	Uruguay
74	Panama	100	Venezuela
75	Papua new Guinea	101	Virgin Island
76	Paraguay	102	Yemen
77	Peru	103	Yugoslavia
78	Philippines	104	Zambia
79	Poland	105	Zimbabwe
80	Portugal		

Appendix III

Major departures in Indian Accounting Standards from the corresponding IFRSs

The present position of Indian accounting standards has been depicted in the following comparative statements of International Financial Reporting Standards and Indian Accounting Standards.

I. Indian Accounting Standards already issued by the Institute of Chartered Accountants of India (ICAI) corresponding to the International Financial Reporting Standards.

S. No.	International Financial Reporting Standards (IFRSs)[1]		Indian Accounting Standards (ASs)		Major Differences
	No.	Title of the Standard	No.	Title of the Standard	
1.	IAS 1	Presentation of Financial Statements	AS 1	Disclosure of Accounting Policies	AS 1 is based on the pre-revised IAS 1. AS 1 is presently under revision to bring it in line with the current IAS 1. The Exposure Draft of the revised AS 1 is being finalised on the basis of the comments received on its limited exposure amongst the specified outside bodies. The major differences between IAS 1 and the draft revised AS 1 are discussed hereinafter.

[1] It may be noted that International Accounting Standards nos. 3, 4, 5, 6, 9, 13, 15, 22, 25, 30 and 35 have already been withdrawn by the International Accounting Standards Board (IASB).

					Differences due to removal of alternatives 1. Unlike IAS 1, the draft of revised AS 1 does not provide any option with regard to the presentation of 'Statement of Changes in Equity'. It requires statement showing all changes in the equity to be presented. The IASB has recently issued an Exposure Draft of the proposed Amendments to IAS 1. The Exposure Draft proposes to remove the option given in IAS 1 and to require the presentation of statement showing all changes in the equity which is in line with the decisions taken by the ASB of the ICAI. 2. Unlike IAS 1, the draft of revised AS 1 does not provide any option with regard to additional disclosures regarding share capital, e.g., number of shares authorised, issued, fully paid, etc. and regarding nature and purpose of reserves, etc., to be made on the face of the balance sheet or in the notes. Considering the *information overload*, the draft of revised AS 1 requires this information to be presented only in the notes and schedules and not on the face of the balance sheet. **Differences due to legal and regulatory environment** 3. In India, the laws governing the companies, banking enterprises and insurance enterprises prescribe detailed formats for the financial statements to be followed by respective enterprises. To make the revised AS 1 acceptable to the law makers/ regulators, the ASB has decided to give

					detailed formats for financial statements for companies in an Appendix. In the Appendix, mainly additional disclosures as compared to IAS 1 are proposed to be given. **Conceptual Differences** 4. IAS 1 requires that if different measurement bases are used for different classes of assets, they should be presented as separate line items on the face of the balance sheet. It is felt that requiring bifurcation of assets on the basis of different measurement bases on the face of the balance sheet itself would result in information overload. Keeping this in view, the draft of the proposed revised AS 1 does not require separate presentation of such assets on the face of the balance sheet; rather, it requires separate presentation of such assets to be made in the schedules and notes.
2.	IAS 2	Inventories	AS 2	Valuation of Inventories	AS 2 is based on IAS 2 (revised 1993). IAS 2 has been revised in 2003 as a part of the IASB's improvement project. Major differences between AS 2 and IAS 2 (revised 2003) are as follows: **Differences due to level of preparedness** 1. IAS 2 specifically deals with costs of inventories of an enterprise providing services. However, keeping in view the level of understanding that was prevailing in the country regarding the treatment of inventories of an enterprise providing services at the time of last revision of

					AS 2, the same are excluded from the scope of AS 2. 2. Keeping in view the level of preparedness in the country at the time of last revision of AS 2, AS 2 requires lesser disclosures as compared to IAS 2. 3. IAS 2 specifically provides that the measurement requirements of the Standard do not apply to the measurement of inventories held by commodity broker-traders who measure their inventories at fair value less costs to sell. AS 2 does not contain any exclusion or separate provisions relating to inventories held by commodity broker-traders. (Broker-traders are those who buy or sell commodities for others or on their own account. The inventories are principally acquired by a broker-trader with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin.) By implication, the measurement basis laid down in the Standard, viz., lower of cost and net realisable value, applies to inventories of commodity trader-brokers. **Conceptual differences** 4. AS 2 specifically excludes "selling and distribution costs" from the cost of Inventories and provides that it is appropriate to recognise them as expenses in the period in which they are incurred. However IAS 2 excludes only "Selling Costs" and not "Distribution Costs".

					5. AS 2 does not deal with the issues relating to recognition of inventories as an expense including the write down of inventories to net realisable value and any reversal of such write down. 6. AS 2 provides that the cost of inventories of items other than those which are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by using the first-in, first-out (FIFO), or weighted average cost formula. It is specifically required by AS 2 that the formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition. However IAS 2 does not require the same for the choice of the formula to be used, rather it requires that same cost formula should be used for all inventories having a similar nature and use to the entity.
3.		Corresponding IAS has been withdrawn since the matter is now covered by IAS 16 and IAS 38	AS 6	Depreciation Accounting	AS 6 was formulated on the basis of IAS 4, *Depreciation Accounting*, which has since been withdrawn. The corresponding Indian Accounting Standard (AS) 10, *Accounting for Fixed Assets,* is being revised to bring it in line with IAS 16. The Council has approved the draft of the revised AS 10 and the same will be issued shortly. Upon issuance of the revised AS 10, AS 6 would be withdrawn.
4.	IAS 7	Cash Flow Statements	AS 3	Cash Flow Statements	AS 3 is based on the current IAS 7. The major differences between IAS 7 and AS 3 are as below:

					Differences due to removal of alternatives 1. In case of enterprises other than financial enterprises, unlike IAS 7, AS 3 does not provide any option with regard to classification of interest paid. It requires interest paid to be classified as financing cash flows. 2. In case of enterprises other than financial enterprises, AS 3 does not provide any option with regard to classification of interest and dividend received. It requires interest and dividend received to be classified as investing cash flows. 3. AS 3 also does not provide any option regarding classification of dividend paid. It requires dividend paid to be classified as financing cash flows.
5.	IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	AS 5 is based on the earlier IAS 8. AS 5 is presently under revision to bring it in line with the current IAS 8. The exposure draft of the revised AS 5 is being prepared on the basis of the comments received on its limited exposure among the specified outside bodies. There is no major difference between IAS 8 and the draft revised standard.
6.	IAS 10	Events After the Balance Sheet Date	AS 4	Contingencies and Events Occurring after the Balance Sheet Date	AS 4 is based on the pre-revised IAS 10 which dealt with the Contingencies as well as the Events Occurring After the Balance Sheet Date. Recently, on the lines of IAS 37, the ICAI has issued AS 29. Pursuant to the issuance of AS 29, the portion of AS 4 dealing with the Contingencies, except to the extent of impairment of assets not covered by other

					accounting standards, stands superseded. AS 4 now deals with the Events After the Balance Sheet Date. AS 4 is presently under revision to bring it in line with the corresponding IAS 10. **Difference due to legal and regulatory environment** 1. As per IAS 10, proposed dividend is a non-adjusting event. However, as per the Indian law governing companies, provision for proposed dividend is required to be made, probably as a measure of greater accountability of the company concerned towards investors in respect of payment of dividend. While attempts are made, from time to time, at various levels, to persuade the Government for changes in law; it is a time-consuming process. 2. As per IAS 10, non-adjusting events, which are material, are required to be disclosed in the financial statements. However as per AS 4, such disclosures are required to be made in the report of the approving authority and not in the financial statements.
7.	IAS 11	Construction Contracts	AS 7	Construction Contracts	AS 7 is based on the current IAS 11. There is no difference between AS 7 and IAS 11.
8.	IAS 12	Income Taxes	AS 22	Accounting for Taxes on Income	**Differences due to level of preparedness** • Keeping in view the level of preparedness in the country at the time of issuance of AS 22, AS 22 was

					based on the Income Statement Approach. • ICAI is revising AS 22 to bring it in line with IAS 12.
9.	IAS 14	Segment Reporting	AS 17	Segment Reporting	AS 17 is based on the current IAS 14. The major differences between IAS 14 and AS 17 are described hereinafter. **Differences due to removal of alternatives** 1. IAS 14 encourages, but does not require, the reporting of vertically integrated activities as separate segments. However, under AS 17, in case a vertically integrated segment meets the quantitative norms for being a reportable segment, the relevant disclosures are required to be made. 2. As per IAS 14, a segment identified as a reportable segment in the immediately preceding period on satisfying the relevant 10% threshold, shall be reportable segment in the current period also if the management judges it to be of continuing significance. However as per AS 17, this reporting is mandatory without considering the management's judgement. **Differences due to level of preparedness** 3. IAS 14 prescribes certain additional disclosure requirements regarding enterprise's share of profit or loss of associates and joint ventures and regarding restatement of prior year information, etc. At the time of issuance of AS

					17, there were no Accounting Standards in India dealing with accounting for investments in associates and joint ventures, etc. Accordingly, these disclosures are not specifically covered in AS 17. 4. As per IAS 14, for a segment to qualify as a reportable segment, it is required for it to earn the majority of its revenue from external customers in addition to meeting the 10% threshold criteria of revenue, operating results or total assets required in AS 17. *The IASB has recently issued IFRS 8 on 'Operating Segments' which would supersede IAS 14 with effect from January 2009. The ASB of the ICAI would consider the above differences between AS 17 and IAS 14 while revising its AS 17 to bring it in line with IFRS 8 on 'Operating Segments'.*
10.	IAS 16	Property, Plant and Equipment	AS 10	Accounting for Fixed Assets	AS 10 is based on the earlier IAS 16. AS 10 is being revised to bring it in line with the current IAS 16. The draft revised AS 10 has been approved by the Council and the same has also been considered by the NACAS at its last meeting. The NACAS made certain suggestions and the views of the Accounting Standards Board on such suggestions will be placed before the NACAS at its next meeting. The following is the major difference between IAS 16 and draft revised AS 10: **Differences due to legal and regulatory environment** 1. In India, the law governing the companies prescribes

					minimum rates of depreciation. Keeping this in view, the revised AS 10 recognises that depreciation rates prescribed by the statute would be the minimum rates of depreciation.
11.	IAS 17	Leases	AS 19	Leases	AS 19 is based on IAS 17 (revised 1997). IAS 17 has been revised in 2004. The major differences between IAS 17 and AS 19(revised 2004) are described hereinafter. **Conceptual differences** 1. Keeping in view the peculiar land lease practices in the country, lease agreements to use lands are specifically excluded from the scope of AS 19 whereas IAS 17 does not contain this exclusion. 2. IAS 17 specifically provides that the Standard shall not be applied as the basis of measurement for: (a) property held by lessees that is accounted for as investment property; (b) investment property provided by lessors under operating leases; (c) biological assets held by lessees under finance leases; or (d) biological assets provided by lessors under operating leases However, AS 19 does not exclude the above from its scope. 5. AS 19 specifically prohibits upward revision in estimate

					of unguaranteed residual value during the lease term. However IAS 17 does not prohibit the same. 6. As per IAS 17 initial direct costs incurred by a lessor other than a manufacturer or dealer lessor have to be included in amount of lease receivable in the case of finance lease resulting in reduced amount of income to be recognised over lease term and in the carrying amount of the asset in the case of operating lease as to expense it over the lease term on the same basis as the lease income. However, as per AS 19, these can be either charged off at the time of incurrence in the statement of profit and loss or can be amortised over the lease period.
12.	IAS 18	Revenue	AS 9	Revenue Recognition	AS 9 is based on the earlier IAS 18. AS 9 is presently under revision to bring it in line with the current IAS 18.
13.	IAS 19	Employee Benefits	AS 15	Employee Benefits	AS 15 is based on the current IAS 19. The major differences between IAS 19 and AS 15 are described hereinafter. **Difference due to removal of alternatives** 1.Unlike IAS 19, AS 15 does not provide any option with regard to recognition of actuarial gains and losses. It requires such gains and losses to be recognised immediately in the statement of profit and loss. **Conceptual Difference** 2. Regarding recognition of termination benefits as a

					liability, it is felt that merely on the basis of a detailed formal plan, it would not be appropriate to recognise a provision since a liability cannot be considered to be crystallised at this stage. Accordingly, AS 15 provides criteria for recognition of a provision for liability in respect of termination benefits on the basis of the general criteria for recognition of provision as per AS 29, *Provisions, Contingent Liabilities and Contingent Assets* (corresponding to IAS 37). It may be noted that the IASB has recently issued an Exposure Draft of the proposed Amendments to IAS 19 whereby the criteria regarding recognition of termination benefits as a liability are proposed to be amended. The Exposure Draft proposes that voluntary termination benefits should be recognised when employees accept the entity's offer of those benefits. We, in our comments on the Exposure Draft, have pointed out that in a country such as India, such a requirement would give erroneous results since the schemes generally have the following characteristics in terms of the steps involved in implementing the scheme: (i) Announcement of the scheme by an employer, which is considered as an 'invitation to offer' to the employees rather than the offer to the employees for voluntary termination of their services. (ii) Employees tender their applications under the scheme. This does not confer any right to the employees under the

					scheme to claim termination benefits. In other words, tendering of application by an employee is considered as an 'offer' in response to 'invitation to offer', rather than acceptance of the offer by the employee. (iii) The acceptance of the offer made by the employees as per (ii) above by the management. Keeping in view the above, we have suggested that as per the above scheme, liabilities with regard to voluntary termination benefits should be recognized at the time when the management accepts the offer of the employees rather than at the time the employees tender their applications in response to the 'invitation to offer' made by the management. If our comments on the Exposure Draft are accepted, the amended criteria in IAS 19 would result into recognition of the liability broadly at the same time as under the criteria prescribed in AS 15. Incidentally, it may be mentioned that the treatment prescribed in AS 15 is also in consonance with the legal position in India.
14.	IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	AS 12	Accounting for Government Grants	• AS 12 is being revised to bring it in line with IAS 20. • The Exposure Draft of the proposed revised AS 12 has been issued for public comments • There is no major difference between the Exposure Draft

					of the standard and IAS 20.
15.	IAS 21	The Effects of Changes in Foreign Exchange Rates	AS 11	The Effects of Changes in Foreign Exchange Rates	**Difference due to level of preparedness** 1. AS 11 is based on the integral and non-integral foreign operations approach, i.e., the approach which was followed in the earlier IAS 21 (revised 1993). 2. The current IAS 21, which is based on 'Functional Currency' approach, gives similar results as that under pre-revised IAS 21, which was based on integral /non-integral foreign operations approach. Accordingly, there are no significant differences between IAS 21 and AS 11. 3. The current AS 11 has recently become effective, i.e., from 1-4-2004. It is felt that some experience should be gained before shifting to the current IAS 21.
16.	IAS 23	Borrowing Costs	AS 16	Borrowing Costs	There is no major difference between AS 16 and IAS 23 (revised 2007).
17.	IAS 24	Related Party Disclosures	AS 18	Related Party Disclosures	AS 18 is based on IAS 24 (reformatted 1994) and following are the major differences between the two. **Conceptual differences** 1. According to AS 18, as notified by the Government, a non-executive director of a company should not be considered as a key management person by virtue of merely his being a director unless he has the authority and responsibility for planning, directing and controlling the

					activities of the reporting enterprise. However, IAS 24 provides for including non-executive director in key management personnel. 2. In AS 18 the term 'relative' is defined as "the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise" whereas the comparable concept in IAS 36 is that of 'close members of the family of an individual' who are "those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include: (a) the individual's domestic partner and children; (b) children of the individual's domestic partner; and (c) dependants of the individual or the individual's domestic partner."
18.	IAS 27	Consolidated and Separate Financial Statements	AS 21	Consolidated Financial Statements	AS 21 is based on IAS 27 (revised 2000). Revisions made to IAS 27 are being looked into by the ASB of the ICAI. **Difference due to legal and regulatory environment** Keeping in view the requirements of the law governing the companies, AS 21 defines control as ownership of more than one-half of the voting power of an enterprise or as control over the composition of the governing body of an enterprise so as to obtain economic benefits. This definition is different

					from IAS 27, which defines control as "the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities". **Conceptual Differences** Goodwill/Capital reserve is calculated by computing the difference between the cost to the parent of its investment in the subsidiary and the parent's portion of equity in the subsidiary in AS 21 whereas in IAS 27 fair value approach is followed.
19.	IAS 28	Investments in Associates	AS 23	Accounting for Investments in Associates in Consolidated Financial Statements	AS 23 is based on the IAS 28 (revised 2000). Revisions made to IAS 28 are being looked into by the ASB of the ICAI. **Conceptual Differences** The conceptual differences, explained in relation to IAS 27, are relevant in this case also.
20.	IAS 31	Interests in Joint Ventures	AS 27	Financial Reporting of Interests in Joint Ventures	AS 27 is based on the IAS 31 (revised 2000). Revisions made to IAS 31 are being looked into by the ASB of the ICAI. **Difference due to removal of alternatives** 1. Unlike IAS 31, AS 27 does not provide any option for accounting of interests in jointly controlled entities in the consolidated financial statements of the venturer. It requires proportionate consolidation to be followed and venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity to be reported as separate line items.

					Conceptual Differences 2. The conceptual differences, explained in relation to IAS 27, are relevant in this case also.
21.	IAS 33	Earnings Per Share	AS 20	Earnings Per Share	AS 20 is based on the IAS 33 (issued 1997). Revisions made to IAS 33 are being looked into by the ASB of the ICAI. **Differences due to level of preparedness** 1. As per IAS 33 revised, basic and diluted amounts per share for the discontinued operation are required to be disclosed. However AS 20 does not require such disclosures. 2. IAS 33 revised requires the disclosure of antidilutive instruments also which is not required by AS 20.
22.	IAS 34	Interim Financial Reporting	AS 25	Interim Financial Reporting	AS 25 is based on the current IAS 34. The major differences between IAS 34 and AS 25 are described hereinafter. **Differences due to legal and regulatory environment** 1. In India, at present, the statement of changes in equity is not presented in the annual financial statements since, as per the law, this information is required to be disclosed partly in the profit and loss account below the line and partly in the balance sheet and schedules thereto. Keeping this in view, unlike IAS 34, AS 25 presently does not require presentation of the condensed statement of changes in

					equity. However as a result of proposed revision to AS 1, limited revision to AS 25 has also been proposed, which requires to present the condensed statement of changes in equity as part of condensed financial statements and limited exposure for the same has been made. 2. Keeping in view the legal and regulatory requirements prevailing in India, AS 25 provides that in case a statute or a regulator requires an enterprise to prepare and present interim information in a different form and/or contents, then that format has to be followed. However, the recognition and measurement principles as laid down in AS 25 have to be applied in respect of such information.
23.	IAS 36	Impairment of Assets	AS 28	Impairment of Assets	AS 28 is based on the IAS 36 (issued 1998). At the time of issuance of AS 28, there was no major difference between AS 28 and IAS 36. IASB, pursuant to its project on Business Combinations, has made certain changes in IAS 36. These are being looked into by the ASB.
24.	IAS 37	Provisions, Contingent Liabilities and Contingent Assets	AS 29	Provisions, Contingent Liabilities and Contingent Assets	AS 29 is based on the current IAS 37. The major differences between IAS 37 and AS 29 are described hereinafter. **Difference due to level of preparedness** 1. AS 29 requires that the amount of a provision should not be discounted to its present value since financial statements in India are prepared generally on historical cost basis and

					not on present value basis. However a limited revision is being proposed to bring it in line with IAS 39 insofar as this aspect is concerned. **Conceptual Differences** 2. IAS 37 deals with 'constructive obligation' in the context of creation of a provision. The effect of recognising provision on the basis of constructive obligation is that, in some cases, provision will be required to be recognised at an early stage. For example, in case of a restructuring, a constructive obligation arises when an enterprise has a detailed formal plan for the restructuring and the enterprise has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. It is felt that merely on the basis of a detailed formal plan and announcement thereof, it would not be appropriate to recognise a provision since a liability cannot be considered to be crystalised at this stage. Further, the judgment whether the management has raised valid expectations in those affected may be a matter of considerable argument. In view of the above, AS 29 does not specifically deal with 'constructive obligation'. AS 29, however, requires a provision to be created in respect of obligations arising from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. In such cases, general criteria for recognition of provision are

					required to be applied. Incidentally, it may be mentioned that the treatment prescribed in AS 29 is also in consonance with the legal position in India. 3. Unlike IAS 37, as a measure of prudence, AS 29 does not require contingent assets to be disclosed in the financial statements.
25.	IAS 38	Intangible Assets	AS 26	Intangible Assets	AS 26 is based on IAS 38 (issued 1998). IASB, as a part of its project on Business Combinations, has revised IAS 38.These revisions to IAS 38 would be looked into by the ASB with the issuance of the Accounting Standard on *Business Combinations*. Following are the major differences between AS 26 and IAS 38: **Conceptual Differences** 1. An intangible asset is defined as an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes whereas IAS 38 defines an intangible asset 'as an identifiable non-monetary asset without physical substance'. 2. AS 26 is based on the assumption that the useful life of the intangible asset is always definite. In regard to assets with definite life also there is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years

					from the date when the asset is available for use. Whereas IAS 36 recognises that an intangible asset may have an indefinite life. In respect of intangible assets having a definite life, the Standard does not contain rebuttable presumption about their useful life. 3. As per AS 26 if control over the future economic benefits from an intangible asset is achieved through legal rights that have been granted for a finite period, it is required that the useful life of the intangible asset should not exceed the period of the legal rights unless: (a) the legal rights are renewable; and (b) *renewal is virtually certain*. However, IAS 38 requires 'evidence to support renewal' instead of virual certainty for renewal.
26.		Corresponding IAS has been withdrawn since the matter is now covered by IAS 32, 39, 40 and IFRS 7	AS 13	Accounting for Investments	AS 13 was formulated on the basis of IAS 25, *Accounting for Investments*. Pursuant to the issuance of IAS 32, IAS 39, IAS 40 and IFRS 7, IAS 25 has been superseded. The Exposure Drafts of the proposed Indian Accounting Standards corresponding to IAS 39 and IAS 32 have been issued which will supersede AS 13, which are broadly in line with the corresponding IASs. The preliminary draft of AS corresponding to IFRS 7 is also expected to be finalised shortly.

27.	IAS 40	Investment Property	-	Dealt with by Accounting Standard 13	AS 13 was formulated on the basis of IAS 25, *Accounting for Investments*. Pursuant to the issuance of IAS 32, IAS 39 and IAS 40, IAS 25 has been superseded. The proposed Indian Accounting Standard corresponding to IAS 39 and IAS 40 is under preparation.
28.	IFRS 3	Business Combinations	AS 14	Accounting for Amalgamations	• AS 14 was formulated on the basis of earlier IAS 22, *Business Combinations*. • Pursuant to the issuance of IFRS 3, *Business Combinations*, IAS 22 has been superseded. • AS 14 is presently under revision to bring it in line with the IFRS 3.
29.	IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	AS 24	Discontinuing Operations. Further, AS 10 deals with accounting for fixed assets retired from active use.	• AS 24 is based on the IAS 35, *Discontinuing Operations*, which has been superseded pursuant to the issuance of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. • An Indian Accounting Standard corresponding to IFRS 5 is under preparation. The first draft is ready which is in consonance with IFRS 5. • After the issuance of this Indian accounting standard, AS 24 is proposed to be withdrawn.

II. International Financial Reporting Standards not considered relevant for issuance of Accounting Standards by the ICAI for the reasons indicated.

S. No.	International Financial Reporting Standard		Reasons
	No.	**Title of the Standard**	
1.	IAS 29	Financial Reporting in Hyper-inflationary Economies	Hyper-inflationary conditions do not prevail in India. Accordingly, the subject is not considered relevant in the Indian context.
2.	IFRS1	First-time Adoption of International Financial Reporting Standards	In India, Indian ASs are being adopted since last many years and IFRSs are not being adopted for the first time. Therefore, the IFRS 1 is not relevant to India at present.

III. Accounting Standards presently under preparation corresponding to the International Financial Reporting Standards

<table>
<tr><th rowspan="2">S. No.</th><th colspan="2">International Financial Reporting Standards</th><th rowspan="2">Status of the corresponding Indian Standard</th></tr>
<tr><th>No.</th><th>Title of the Standard</th></tr>
<tr><td>1.</td><td>IAS 26</td><td>Accounting and Reporting by Retirement Benefit Plans</td><td>Under Preparation.</td></tr>
<tr><td>2.</td><td>IAS 32</td><td>Financial Instruments: Presentation</td><td>• The ASB of the ICAI has issued the Re-Exposure draft of the proposed Accounting Standard (AS) 31, on 'Financial Instruments: Presentation' inviting comments by March 31, 2007.

Differences due to legal and regulatory environment
• The Exposure Draft of proposed Standard does not deal with certain aspects which are not permitted under the present Indian legal framework, for example, derivatives based on an enterprise's own equity instruments and buy back of shares by the enterprise itself for issuance to employees under ESOPs.
• As per IAS 32, redeemable preference shares, based on their substance, may be considered as a debt instrument instead of equity instrument. In Indian legal framework, the settled position is to consider these as part of equity. ICAI has decided to retain IAS 32 position in the Exposure Draft of proposed Indian Accounting Standard. However, it is recognised in the Exposure Draft itself that until the law is amended, the law will prevail over the Standard.</td></tr>
<tr><td>3.</td><td>IAS 39</td><td>Financial Instruments: Recognition and Measurement</td><td>The ASB of the ICAI has issued the Exposure Draft of the proposed Accounting Standard (AS) 30,on 'Financial Instruments: Recognition and Measurement' inviting comments by March 31, 2007.There are no major differences compared to IAS 39.</td></tr>
</table>

4.	IAS 41	Agriculture	Under preparation.
5.	IFRS 2	Share-based Payment	Under preparation. At present, Employee-share Based Payments, are covered by a Guidance Note issued by the ICAI, which is based on IFRS 2 insofar as fair value approach is concerned. It, however, allows adoption of intrinsic value method until the formulation of the Standard. Further, some other pronouncements deal with other share-based payments, e.g., AS 10, Accounting for Fixed Assets.
6.	IFRS 4	Insurance Contracts	Under preparation.
7.	IFRS 7	Financial Instruments: Disclosures	Under preparation.

IV. Guidance Note issued by the Institute of Chartered Accountants of India (ICAI) corresponding to the International Financial Reporting Standard

S. No	International Financial Reporting Standard		Title of the Guidance Note
	No.	Title of the Standard	
1.	IFRS 6	Exploration for and Evaluation of Mineral Resources	Guidance Note on Accounting for Oil and Gas Producing Activities. The Guidance Note is comprehensive as it deals with all accounting aspects and is based on the corresponding US GAAPs.