



Ind AS roadmap for banks, insurers/insurance companies and NBFCs

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INTRODUCTION

On 18 January 2016, the Ministry of Corporate Affairs (MCA) issued a press release setting out the dates of Ind AS applicability for banks, insurance companies and NBFCs. The notification/rules as required would be issued by MCA, RBI and IRDA in due course.

2018-19 Phase I

- All Scheduled commercial banks (other than UCBs & RRBs)
- All India Term-lending Refinancing Institutions
- All Insurer/ Insurance Companies
- NBFCs with net worth of Rs. 500 crores or more

2019-20 Phase II

- All listed NBFCs (or in the process of listing) & not covered in Phase I above
- All unlisted NBFCs with net worth of Rs.250 crores or more but less than Rs. 500 crores

- Applicable to both standalone and consolidated financial statements
- Financial statements to be presented with an opening balance sheet and a comparative period
- Applicable in respective periods to holding, subsidiary, joint venture or associate companies of:
 - Scheduled commercial banks, notwithstanding the corporate roadmap announced by the MCA
 - NBFCs mentioned in Phase I and II, except those already covered under the MCA's corporate roadmap
- NBFCs with net worth below Rs 250 crores; UCBs and RRBs to prepare their financial statements based on the existing Accounting Standards
- Voluntary or early adoption is not allowed (Read below)

Other matters

- **Voluntary adoption:** Scheduled commercial banks (excluding RRBs), NBFCs and insurance companies shall apply Ind AS only if they meet the specified criteria, and are not allowed to voluntarily adopt Ind AS. However, this will not preclude them from providing Ind AS compliant financial statements to their parent/investor for the purposes of preparing a consolidated financial statement in order to comply with the existing legal requirements.
- **Housing finance companies (HFC):** Applicability of Ind AS to HFC is not explicitly covered under the roadmap for banks, insurers/insurance companies and NBFCs. So, we expect the MCA to clarify this position while issuing the final notification.
- The definition of net worth and dates for consideration of net worth has not been clarified by MCA/regulators in this roadmap. So, we expect the MCA/regulators to clarify this position while issuing the final notification.
- Although not specifically stated, based on the MCA's corporate roadmap, it is assumed that the following will also apply to the roadmap for banks, insurance companies and NBFCs:
 - Once a company starts applying Ind AS mandatorily based on the criteria specified above, it will be required to comply with Ind AS for all its subsequent financial statements even if any one of the applicability criteria specified does not subsequently apply to it.
 - An overseas subsidiary, associate, joint venture and other similar entity of an Indian company may prepare its standalone financial statement according to the specific jurisdiction's requirements. However, the Indian parent will have to mandatorily prepare its consolidated financial statement based on Ind AS if it meets the applicability criteria.
 - An Indian company, which is a subsidiary, associate, joint venture and other similar entity of a foreign company, should prepare its financial statements in accordance with Ind AS if it meets the applicability criteria.
- The RBI has recently released its Report of the Working Group on the Implementation of Ind AS by Banks in India. The Working Group has structured its recommendations focusing on financial instruments. Similarly, the Insurance Regulatory and Development Authority of India has also released a discussion paper on the Ind AS convergence in the insurance sector.



Our assessment

Ind AS implementation will pose significant challenges, especially for Indian banks, NBFCs and insurers, as the new requirements would be substantially different from the previous regulatory guidelines, which were more rule based and prescriptive. Apart from volatile movements within profitability and equity, the way an entity adopts Ind AS could also impact the way capital requirements and resources are calculated, and thereby affect the capital ratios.

Operational complexities and challenges in adopting Ind AS would depend on various company-specific factors such as nature of products/services, IT environment, pricing/waiver policies and practices, tenor and ticket size of the advances, data retention policy, mergers/acquisitions in the past and so on.

Therefore, a carefully designed and tested roadmap will help companies to successfully overcome these challenges before the effective transition date.

Building awareness for the Board of Directors and Audit Committee

The following is a list of points that the Board of Directors or Audit Committees may wish to consider in the overall convergence to Ind AS.

Planning for implementation

- Has a high level scoping exercise been performed, including impact assessment of existing accounting policies vs Ind AS?
- Has a detailed convergence project plan and timetable been developed?
- Has the entity taken into account the need for parallel runs of new systems?
- Has the entity coordinated the project with their auditors and planned for the audit of the converged financial statements?
- Are there any areas where the implementation is expected to be difficult and services of external agencies required? Are those external agencies identified?

Investor relations and dividend policy

- Has the entity identified the impacts on the key performance indicators that are regularly communicated to analysts and shareholders?

- Has the entity determined the appropriate timing and means of communication in order to manage shareholders and analysts' expectations?
- Has the entity assessed the potential impact on its dividend policy if net profits are expected to be significantly affected or to be volatile?

Systems, control and information

- Have existing processes and systems been reviewed to establish whether they will enable the preparation of converged financial statement under Ind AS?
- Have necessary enhancements to process and systems been identified? Will these systems and processes provide data for implementation, monitoring and disclosure purpose?

Human resources and training

- Has the entity assessed the available knowledge and training needs of personnel?
- Has the entity assessed whether there are sufficient internal resources available to engage in all aspects of the projects, or identified suitable external providers?

Key messages for Boards and Audit Committees

- Board and Audit Committees need to take a high-level overview role in the final crucial phase in the process of convergence over the coming months
- Has the Project Management Office been established?
- How will the Audit Committee remain informed about changes and the impacts of the company's Ind AS transition?
- Is the Audit Committee aware of the accounting policy elections and various implications for the organization?
- Is the Company monitoring the evolving standards and changing regulations?

KEY IMPACT AREAS



Recognition and Measurement of Financial Instruments



Loan loss provision



Revenue recognition



Foreign currency transactions



Consolidation



Financial guarantees



Prudential and GAAP related Disclosure requirements



Segment reporting



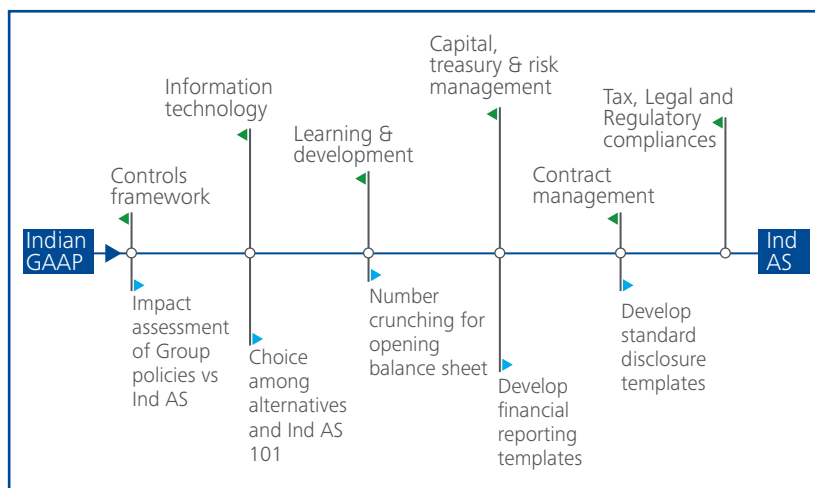
Taxation

Time for action

Your Ind AS conversion is a strategic issue. You would need to develop your own roadmap by considering the key pointers along the items shown in the diagram below. The board of directors and management need to explain to the stakeholders what changes and impact the Ind AS conversion would bring about.

By initiating early, you will likely spread out your costs, improve your processes and systems, integrate with other initiatives, such as an ERP upgrade or a merger or an acquisition and most importantly, you can do it at a pace that suits your company and its circumstances.

We understand that there are major financial and human resource demands in companies, and an Ind AS conversion project cannot be a distraction from the primary activities of your business. In fact, it must be integrated, coordinated and aligned with your key goals. Hence, it should start soon, with some preliminary questions and a carefully drawn roadmap. So, whether the journey from here to there will be rocky or smooth will depend entirely on your decision.



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