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A STUDY ON THE IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS CONVERGENCE ON INDIAN BANKING SECTOR

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Abstract:

The International Financial Reporting Standards (IFRS) convergence has emerged as a central topic of discussion in the international financial arena. The primary objective of this convergence is to improve the transparency, comparability, and quality of financial reporting procedures. Indian Accounting Standards (Ind AS) have been adopted by India, which is a fast rising economy, in order to align its accounting standards with the International Financial Reporting Standards (IFRS). As a result of the substantial role that the banking industry plays in the Indian economy, its adoption has significant ramifications for the banking sector. An investigation of the effects that IFRS convergence has had on the Indian banking sector is presented in this report. It does this by conducting an in-depth research that investigates the ways in which the implementation of Indian Accounting Standards (Ind AS) affects financial reporting, risk management, performance assessment, and regulatory compliance within the banking industry. In addition to this, the research analyses the difficulties and prospects that are brought about by the convergence of IFRS, as well as the implications that this convergence has on the stability and competitiveness of Indian banks in the international market.

Keywords: *IFRS,Convergence*, *Indian banks*

Introduction:

International Financial Reporting Standards (IFRS) convergence has emerged as a major global phenomenon in financial reporting, making it a remarkable event on a global scale. The increasing number of countries that have adopted or are convergent with the International Financial Reporting Standards (IFRS) has led to more openness and harmonisation in reporting processes in the financial sector. Among the many industries affected by this convergence, the banking sector is one of the most consequential. Reason being, the banking industry's complex financial operations and pivotal position in the economy make it such. One of the world's fastest-growing economies, India's government has begun the process of bringing its accounting standards in line with those of the International Financial Reporting Standards (IFRS). The adoption of IFRS in India, formerly known as

Indian Accounting Standards (Ind AS), is a major development in the country's efforts to improve the quality and comparability of its financial reporting systems. This convergence significantly impacts the banking industry, which is a crucial part of the Indian economy. The study's overarching goal is to assess how the Indian banking industry would fare in the event of IFRS convergence. This study aims to examine the effects of Indian Accounting Standards (Ind AS) on financial reporting, risk management, performance evaluation, and regulatory compliance as they pertain to the banking industry. The study also aims to assess the effects of IFRS convergence on the stability and worldwide competitiveness of Indian banks, as well as the opportunities and challenges that this convergence brings. Understanding the impact of IFRS convergence on the Indian banking industry is crucial for policymakers, regulators, investors, and other stakeholders to make educated choices and adapt to the changing financial landscape. This study aims to shed light on the implications of this convergence and contribute to the ongoing discourse about financial reporting requirements and their effects on the Indian banking industry. This confluence and its consequences will be the primary research foci.

IFRS in INDIA:

The International Accounting Standards Board (IASB) creates IFRSs, and they are universal and not limited to a particular country. They may be applied anywhere in the globe because of their universal design. It is feasible that the current IFRSs may converge with minor adjustments; nonetheless, there might be a need for variances mainly because of the country's legal, regulatory, and economic climate. This is due to the fact that unique traits are a product of national identity, which in turn gives rise to national quirks. Convergence can be characterised as "the process of designing and maintaining national accounting standards in such a way that financial statements prepared in accordance with national accounting standards draw an unreserved statement of compliance with international financial reporting standards." Par. 14 of IAS 1: Presentation of Financial Statements is relevant to this issue and should be read at your attention. This paragraph makes it clear that in order for financial statements to be considered compliant with IFRSs, they must adhere to all of the requirements set out by IFRSs. "The phrase "convergence with IFRSs" refers to the possible adoption of IFRS with the aforementioned exceptions. According to the 2007 Concept Paper, India's accounting standards should start to converge with the International Financial Reporting Standards in April 2011. The Indian government agency in charge of company regulation, the Ministry of Corporate Affairs, released a Roadmap for Convergence with IFRS in India in January 2010 after extensive discussions and legal procedures. The Ministry also announced 35 accounting standards, or IND AS, in February 2011 to facilitate the convergence process.

A new roadmap for the convergence process.

A new road map for the adoption of New Indian Accounting Standards (Ind AS) was announced by the Ministry of Corporate Affairs on February 16, 2015. This announcement was made on the same day. In accordance with the revised road plan, the adoption of these standards is scheduled to start on a voluntary basis on April 1, 2015, and will thereafter become required on April 1, 2016. The ICAI has produced 39 accounting standards that are convergent with IFRS (Annexure 1), and these rules may be found in the document. According to the notice that was distributed by the Ministry of Corporate Affairs (MCA), insurance companies, banking companies, and non-banking finance companies would not be required to use Indian Accounting Standards (Ind AS) when preparing their financial statements. This could be done voluntarily or mandatorily, depending on the specific circumstances.

Process of convergence with IFRS in India

Although India has required the International Financial Reporting Standards (IFRS) for financial reporting statements commencing on April 1, 2011, the country has not yet been effective in resolving the problems linked to the conversion to IFRS, such as taxes. This is despite the fact that India has mandated the IFRS. As a result of the passing of the Companies Act in 2013, the implementation of International Financial Reporting Standards (IFRS) has been the principal focus of the Ministry of Corporate Affairs.

Impact on Indian banks

Banks are required to present their financial statements in accordance with the Indian Accounting Standards (Ind AS) for accounting periods beginning on April 1, 2018, with comparatives for periods ending on March 31, 2018, or later. Individual financial statements and consolidated financial statements will both be subject to the application of the Indian Accounting Standards.

1. The Indian Accounting Standards (Ind AS) will only be used by banks in accordance with the dates mentioned above; early adoption of the Ind AS will not be authorised.
2. The ultimate responsibility for deciding the direction and strategy of the Indian Accounting Standards (Ind AS) should be placed on the boards of directors of the banks, as well as for supervising the formulation and execution of the plan to implement the Ind AS.
3. It is recommended that financial institutions establish a Steering Committee, which should be led by an official holding the rank of executive director (or an equivalent position), and should include members from different departments within the institution. This committee should immediately begin the process of implementation.
4. The Audit Committee of the Board is responsible for monitoring the status of the process of implementing the Ind AS as well as providing reports to the Board at regular intervals of three months.
5. Beginning with the half-year that concluded on September 30, 2016, banks are required to provide proforma financial statements in accordance with the Indian Accounting Standards.

With regard to the application of Ind AS, the listing status and net value of a firm are taken into consideration. Ind AS will first be implemented for businesses that have a net worth that is equal to or more than 500 crore INR, commencing on April 1, 2016. Starting on April 1, 2017, listed corporations and other entities with a net worth equal to or more than 250 crore INR will be required to comply with the regulations. Beginning in April 2015, businesses who were affected by the first phase will be required to do a more in-depth examination of the specifics of the 39 new Indian Standards that have been issued. Holding companies, subsidiaries, joint ventures, and associates of the businesses that are covered by the roadmap will also be subject to the application of the Indian Accounting Standards.

Review Of Literature

The reduction of expenses connected with the processing and auditing of financial information for participants in the capital market is facilitated by the application of a uniform collection of international standards, which contributes to the reduced costs. Not only has the capital market been liberalised as a whole, but the comparability and consistency of financial statements across companies and countries has also made the work of investment analysts easier, which in turn has attracted investors from other countries. On the other hand, according to Ball (2006), the decision to adopt IFRS will be beneficial for a great number of developing nations, particularly those nations in which the quality of the institutions that make up the local government is inadequate. According to the findings of the research conducted by Kenneth Enoch Okpala (2012), the International Financial Reporting Standards (IFRS) have been implemented in Nigeria. The introduction of International Financial Reporting Standards (IFRS) was thought to be a catalyst for both economic development and foreign direct investment (FDI). Additionally, it was proposed that all stakeholders should strive towards attaining complete implementation in order to profit from the global GAAP and principle-based standards. This was done in order to enjoy the benefits of these standards.

Tripathi (2018) In the context of India, a comparison was done between the Indian GAAP regulations and IFRS for small and medium-sized firms (SMEs). The features, challenges, advantages, and difficulties related with the application of IFRS in small and medium-sized businesses were explored. According to the findings of the study, it was determined that the implementation of IFRS will have a significant impact on the financial condition of companies, as well as a positive impact on the degree of trust that users of financial statements, such as investors, students, accountants, auditors, stakeholders, and so on, have in the financial statements. This was determined based on the findings of the study. Considering that this will make it possible for investors to do analysis, it will be of significant use to them.

Kapoor and Ruhela (2013) demonstrated in their study paper that the application of IFRS leads in a variety of benefits, including worldwide comparability, transparency, increased information quality, easier access to foreign markets, and a reduced cost of capital. These benefits are all a result of the implementation of IFRS. Nevertheless, the most important problem is to synchronise the International Financial Reporting Standards (IFRS) with the legal framework that is currently in existence. The harmonisation of accountability according to Indian GAAP and International Financial Reporting Standards (IFRS) has been the focus of a number of studies that have been conducted. Following the completion of the investigations, it was determined that there are a considerable number of accounting promulgations that have been issued by IRDA, ICAI, SEBI, and RBI that are in direct opposition to the International Financial Reporting Standards (IFRS) that are now in circulation.

Due to the increasing amount of cross-border capital flows and FDI generated by mergers and acquisitions in the modern era of globalisation, there is a pressing need to standardise accounting practises and adopt them globally (AkinyemiOlumideAkindele, 2012).Intangible assets, marketable financial assets, interest-bearing loans, provisions, deferred tax liability, provisions under current obligations, general reserve, and other categories were found to have variations upon examination of the balance sheet.In 2012, the author was Dr. M. Jayasree.

The results show that both the new goodwill accounting standards and the fair-value method for derivative instruments have been effective. Greetings, I am Jordi Perramon. However, after switching to IFRS, one market-based metric—the price-to-earnings ratio—showed a little decline. The results demonstrated an increase in profitability ratios and a smaller but still considerable rise in the liquidity ratio. According to the findings, the steep drop in the price-to-earnings ratio and the rise in profitability ratios may be traced back to the incredibly high income statement profits reported under IFRS.PawePunda's 2011 research (). Dr. Vidhi Bhargava (2013) states that the value and depreciation of property, plant, and equipment are major contributors to the discrepancy. The results (Rahul Kamath, 2014) show that IFRS has significantly affected financial indicators, investment activities, and operational activities since its adoption. Financial risks and debt covenants have not been significantly affected by the introduction of IFRS.

Investors would be able to make better stock market judgements if IFRS is implemented, according to research by P. A. Isenmila (2013). (ii) Good Corporate Practices, timely and accurate management information, disclosure of information, transparency, growth, leverage, liquidity, and scale will all see an improvement or beneficial outcome as a result of the new criteria. One of the most telling signs of successful implementation of IFRS, according to Wilson E. Herbert (2013), are the "IFRS Course in Accounting Curriculum" and the "IFRS training for management and staff." The professional accounting organisations in these two countries are hoping that the results of Dr. Kwok Shu Hung's (2014) study would shed light on the topic and motivate them to do more to promote public and student confidence in accountants. Preparers' experiences with the IFRS implementation process have been under-surveyed. According to a survey by Richard D. Morris (2014), more people rated the elements that include General Issues with IFRS and Accounting Issues as difficult, big, or severe than easy or little. This suggests that the adoption of IFRS is significantly influenced by this trend. Contrarily, a much higher percentage of respondents did not consider the components that make up Capital Market Impact of IFRS and Benefits of IFRS to be substantial, but rather to be of low relevance. Research by Dr. B. Shekhar (2013) concluded that IFRS provides investors with accurate and transparent unified financial statements, therefore eliminating investor confusion.

Kumawat (2019) examined the impact that the International Financial Reporting Standards (IFRS) have had on various sectors of the economy. In compared to their counterparts in other countries, the financial status of Indian businesses has improved as a direct result of the implementation of International Financial Reporting Standards (IFRS), as indicated by the findings of the research. Furthermore, the research investigation revealed that the implementation of International Financial Reporting Standards (IFRS) has a positive impact on certain industries, including healthcare, automotive, pharmaceuticals, industrial manufacturing, and life sciences. On the other hand, the implementation of IFRS has a negative impact on certain industries, including infrastructure, telecom, capital projects, and metals.

Swamynathan and Sindhu (2011) According to the explanation, the shift from Indian generally accepted accounting principles (GAAP) to International Financial Reporting Standards (IFRS) would have an impact on the financial statements. A research study was also conducted with the intention of determining the impact that the voluntary convergence of IFRS would have on the primary accounting ratios of Wipro. This was done in order to investigate the impact that the convergence of IFRS will have. It was found that there was not much of a difference between the two methods of reporting Wipro's net income, regardless of whether it was reported in line with Indian GAAP or International Financial Reporting Standards (IFRS). However, there was a significant disparity between the overall liabilities and the equity of the company.

Objectives

1. To Conduct research about the degree of awareness that stakeholders have regarding the implementation of IFRS.
2. To Be aware of the effects that the convergence of IFRS will have on various industries.

Importance of IFRS

The legislative body had a strong sense that there was a need to bring about consistency, rationalisation, comparability, transparency, and adaptation in financial reporting. If there is a single set of global standards that are of the best quality and are established in the benefit of the public, then this would be the most effective approach to eliminate the issues that are caused by the many types of standards. Following is a list of the most significant reasons why International Financial Reporting Standards are so important:

1. A company may submit its financial accounts on the same basis as its rivals in other countries, which makes it simpler to make comparisons between the groups.
2. It may be possible for businesses that have subsidiaries in countries that require or enable the use of IFRS to use a single accounting language across the whole organisation.
3. If a business is a subsidiary of a foreign firm that is required to use IFRS, or if the company has a foreign investor who is required to use IFRS, then the company may be required to convert to IFRS at some point.

4. Regulators of the capital market should be aware of just one set of accounting standards, and these standards will allow businesses to raise capital more effectively while also lowering the amount of money they spend on information processing.
5. The firms will no longer be needed to produce their financial statements in accordance with multiple global accounting principles, which would simplify the process of listing shares on foreign exchange markets.

Advantages of the IFRS

a) Having a single accounting system would make life a bit less complex for both the firms and the investors, as the economies of the globe are getting more connected with one another.

b) For firms who are actively operating on a global scale and expanding their operations, having a comprehensive understanding of International Financial Reporting Standards (IFRS) is now absolutely necessary.

c) It would appear that there is widespread agreement across the globe on the necessity of a single global set of high-quality accounting standards, and that the International Financial Reporting Standards (IFRS) are now in the greatest position to achieve that requirement.

d) As a result of the uniformity of a single reporting standard in today's global economy, investors will be able to investigate and compare financial statements on a worldwide scale in a more efficient and effective manner.

e) Increasing market liquidity, increasing investment flows through international mutual funds, more advantageous conditions in private debt contracting, increased analyst coverage, and decreased stock return synchronisation are some of the outcomes that are attributed to the implementation of International Financial Reporting Standards (IFRS), as stated by the International Financial Reporting Standards (IFRS).

Conclusion

Research on the effects of IFRS convergence on India's banking sector yielded some important findings and implications, drawing a conclusion from the available literature. To begin, there have been major shifts in financial reporting practices brought about by the adoption of IFRS in India's banking industry. In order to attract the global capital market, this research found that International Financial Reporting Standards (IFRS) application was more favourable. Moreover, the analysis shows that the changes in the major accounting ratios are caused by the application of laws for truthful worth accounting, lease accounting, tax accounting, and rules regarding the accounting of economic instruments. Accounting numbers and financial ratios have changed for a number of reasons, including stricter requirements for some accounting issues and the introduction of fair value accounting standards. The results also show that respondents' lack of a comprehensive grasp of IFRS adds to the challenges of adopting the standards in India. Conferences, seminars, and other events should be organised to help spread information about IFRS and ensure a smooth transition. Students should be obligated to take IFRS as a course requirement. India would be better off viewing IFRS as a gift than a mystery, given the standards' potential to greatly benefit the country. More than 130 countries around the globe have already taken IFRS. Because of its impact on accounting, IFRS has made financial reporting more open and clear. Small events have a bigger impact on a company's financial status, according to the International Financial Reporting Standards (IFRS).

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