European Securities and Markets Authority

Report

Supplementary Progress Report on the equivalence of the Indian Accounting Standards with International Financial Reporting Standards

12 April 2011 | ESMA/2011/116/Annex 2

Table of Contents

List of abbreviations and acronyms used in this report

ASB	Accounting Standard Board
CESR	Committee of the European Securities Regulators
ESMA	European Securities and Markets Authority
IASB	International Accounting Standards Board
ICAI	Institute of Chartered Accountants in India
IFRS	International Financial Reporting Standards
IRDA	Insurance Regulatory and Development Authority
MCA	Ministry of Corporate Affairs
NACAS	National Advisory Committee on Accounting Standards
SEBI	The Securities and Exchange Board of India

I. Executive Summary

Following European Regulation No 1095/2010 of the European Parliament and of the Council , the Committee of the European Securities Regulators (CESR) has been transformed into the European Securities and Markets Authority ("ESMA") with effect from 1 January 2011. As the successor organisation to CESR, ESMA will complete all engagements entered into by CESR in existence at the transition date.

This report fulfils a mandate received by CESR from the European Commission in June 2010 to provide it with an update on the adoption or convergence programmes in several countries. The mandate aims to put the Commission in a position to provide a progress report to the Council and the European Parliament in line with its obligations under Commission Regulation (EC) 1569/2007 passed by the Parliament in December 2007. The mandate received in 2010 from the Commission identified the need to make on-the-spot investigations in India.

In November 2008, at the European Commission's request, CESR provided advice on the equivalence of Indian accounting standards to International Financial Reporting Standards (IFRS). In June 2009 and November 2010, CESR prepared update reports on the progress made by India in its process of convergence to IFRS.

This report supplements the update report issued in November 2010. Consequently this report is intended to be basically factual in nature, providing for information purposes much of the source material that has been used to prepare it, and should not in any way be considered a formal advice or opinion on the progress achieved in India towards convergence. As this report is designed to update, it should be read in conjunction with the reports CESR has produced previously.

In preparing this report, ESMA has had recourse to information provided during or in conjunction with a meeting held in January 2011 with representatives of the Indian Ministry of Corporate Affairs, the Institute of Chartered Accountants of India and the Securities and Exchange Board of India.

ESMA's work indicates that India has taken further actions in pursuit of its convergence programme. The concrete actions India has taken in the convergence of its accounting standards and in its enforcement process are detailed in dedicated areas of this report.

This report should not be considered to constitute further advice by ESMA on the equivalence of the converged accounting standards concerned.

On the basis of the information received during and after the meetings in India, we have identified some potential areas of concern with the progress made towards convergence, as presented below:

a) The strategy followed by the Indian authorities regarding the convergence process has been to adopt IFRSs as issued by the IASB and modify them for the specific legal and economic context in India. Consequently the Indian version of IFRS appears to have a potentially significant number of differences (carve-outs) from IFRS, some of which when the standards are actually used may constitute significant departures from IFRS

b) India has indicated its intention to bring to the attention of the IASB the specific issues which are currently part of the differences between the converged Indian standards and IFRS. As at the date of our meeting, there was no public commitment with respect to the elimination of those differences

c) There is no experience in India regarding IFRS enforcement, asthere are no issuers, Indian or otherwise, who already apply IFRS

d) The roadmap for implementation of the converged standards by companies is spread over a 3 year period (2011 to 2014), with the final group of companies adopting the Indian version of IFRS in 2014. According to a press release issued by the MCA in February 2011 there are significant concerns about the date chosen for IFRS transition, and it appears very likely that this date will be postponed for at least one year, i.e. to 1 April 2012.

II Requirements with respect to equivalence in the European Union

1. Following European Regulation 1095/2010 of the European Parliament and of the Council, the Committee of the European Securities Regulators has been transformed into the European Securities and Markets Authority ("ESMA") with effect from 1 January 2011. ESMA will complete all previous engagements entered into by CESR. Consequently this report has been prepared pursuant to a mandate received by CESR in June 2010.

2. Under both the European Prospectus and Transparency Directives, third country issuers who have their securities admitted to trading on an EU regulated market or who wish to make a public offer of their securities in Europe, are required to produce financial reports using either International Accounting Reporting Standards ("IFRS) adopted pursuant to EC Regulation 1606/2002 (hereinafter "EU IFRS") or a third country's national accounting standards ("third country GAAP") deemed equivalent to those standards.

3. In December 2007 the European Commission published Regulation (EC) 1569/2007 "Commission Regulation establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directives 2003/71/EC and 2004/109/EC of the European Parliament and of the Council" ("Commission Regulation on the mechanism"). This Regulation established the conditions under which the GAAP of a third country can be considered equivalent to IFRS pursuant to a definition of equivalence set out in article 2. The Regulation also set out conditions in article 4 under which the accounting standards of other third countries could be considered acceptable for a limited period expiring no later than 31st December 2011.

4. The aim of granting this transitional period was to allow the standard setters and regulators of those countries concerned more time to pursue their existing programmes either to converge their accounting standards with or to adopt IFRS. The countries concerned were Canada, China, India and South Korea. In 2008, at the European Commission's request, CESR provided advice on the equivalence of the accounting standards of those four countries.

5. The Regulation also requires the European Commission to update the European Parliament at regular intervals on the progress that is being made by these countries with regard to their respective programmes. Consequently, CESR has undertaken work and prepared advice or update reports at regular intervals on the adoption or convergence of these third country GAAPs to IFRS.

6. Within ESMA, the operational group designated as the Corporate Reporting Standing Committee chaired by Fernando Restoy, Vice-Chair of the Spanish CNMV, has been charged with fulfilling the European Commission's request with respect to advice or progress reports on equivalence of third country accounting principles to IFRS.

III Previous reports on equivalence

7. The aim of this report is to supplement information provided previously regarding the process of convergence in India. This update report is part of an on-going process of assessment of the equivalence of Indian accounting standards which permits Indian issuers to access European markets using financial statements prepared under Indian accounting standards.

8. In its November 2008 advice (CESR/ 08-859), CESR opined that the convergence programme in India was comprehensive and there was no reason to doubt that India would be in a position to achieve the objective of substantial convergence by 2011. This advice was based on the fact that the program was comprehensive and capable of being completed before 31 December 2011 indicated by the following elements:

    a. The ICAI had made, in July 2007, a public commitment to adopt IFRS before 31 December 2011;

    b. The Indian Government had confirmed publicly, in May 2008, its intention to achieve convergence with IFRS by 2011;

    c. The ICAI had noted that it might make modifications to IFRSs to reflect "Indian conditions" such as requiring additional disclosures, changing some terminology and omitting some options or alternative treatments. However, those changes were expected to be minor and the stated intention of both the ICAI and the Indian Government was that Indian Accounting Standards would to all intents and purposes be fully IFRS compliant by the end of the program; and

    d. Effective measures were consequently being taken to secure the timely and complete convergence of Indian Accounting Standards to International Financial Reporting Standards by 31 December 2011.

9. In June 2009, CESR provided the European Commission with an update report on the progress made by India in the process of convergence with IFRS. That report was approved and endorsed by the European Union Parliament in June 2010.

10. In June 2010, CESR received a request from the European Commission to produce a second update report. The new mandate made clear that CESR was required to have regard in its work to publicly available information or to information made available by the authorities concerned upon request in writing. The mandate also identified the potential need to make on-the-spot investigations in India.

11. In November 2010 and in response to the European Commission request, CESR provided a second update report on the progress made in Canada and South Korea towards adopting IFRS and in India and China towards converging with IFRS (CESR 10-1301). The information related to India included in

that report was based only on publicly available information, an exchange of written information with representatives of the Indian authorities and a meeting with a representative of the IASB.

12. As stated earlier, the European Commission has specifically requested CESR to undertake limited additional work to assess whether Indian accounting standards were following the process of convergence with IFRS. Although ESMA's report on Indian accounting standards will be used by the Commission to supplement the information contained in earlier reports made by CESR when it updates the European Parliament, this report will not be considered to constitute further advice by ESMA on the equivalence or otherwise of Indian accounting standards.

13. Consequently this report, aimed at fulfilling ESMA's obligations under the mandate received in June 2010, is intended to be basically factual in nature, providing for information purposes much of the source information that has been used to prepare it, and does not in any way seek to opine on the progress towards convergence achieved by India.

14. In order to fulfil the request made by the European Commission in the above mentioned mandate and consequently to supplement its November 2010 report, ESMA has met with representatives of the Indian authorities in January 2011.

IV Institutional framework in India

15. The institutions playing a role in the implementation of accounting standards in India are the Institute of Chartered Accountants of India (ICAI) and the Ministry of Corporate Affairs (MCA). Enforcement of the standards on listed companies is done by the Securities and Exchange Board of India (SEBI).

16. The Accounting Standards Board of ICAI (ASB) is the independent body with all the powers necessary to develop and establish standards and guidance governing financial accounting and reporting. It has the power to issue and publish accounting pronouncements on its own authority which are then made mandatory by Indian Company law following approval from the MCA, through its National Advisory Committee on Accounting Standards (NACAS). With regards to banks, the Reserve Bank of India (RBI), being the regulator of banks in India, ordinarily requires banks to follow the accounting standards issued by the ICAI and endorsed by the Government. The same is the case with the Insurance Regulatory and Development Authority (IRDA) – the regulator of insurance companies in India and the Securities and Exchange Board of India (SEBI) – the regulator of listed entities.

17. Under the Indian legislative framework, the SEBI has the power to enforce financial reporting requirements against issuers and to sanction them in cases where they are found to be non-compliant with Indian accounting standards. The ICAI has set up a Financial Reporting Review Board (FRRB), the role of which is to review the financial statements of listed and non-listed entities. In the case of the non-compliance with financial reporting requirements, FRRB submits its report to the relevant regulators for necessary action against the defaulting entity, e. g., in case of a company, report is submitted to the MCA; in case of a listed company to SEBI; for banks to RBI and for insurance entities to the IRDA. In case the non-compliance is on the side of the auditor in giving report on financial statements, the case is referred to the Secretary to the Council of the ICAI for initiating disciplinary action against the auditor under the Chartered Accountants Act, 1949.

V Evolution of the process of convergence of Indian accounting standards with IFRS

18. In 2007, the ASB of the ICAI constituted a Task Force which released a Concept Paper, followed by a public commitment to converge to IFRS before 31 December 2011. The Indian Government confirmed publicly in 2008 its intention to achieve convergence by 31 December 2011.

19. As part of the process towards convergence, the ICAI has revised a number of Indian accounting standards in order to make the necessary adjustments to achieve convergence with IFRS (Indian converged GAAP). When providing advice to the European Commission in 2008 (CESR 08-859), CESR made a detailed assessment of the differences between Indian accounting standards and IFRS (Appendix II to CESR 08-859).

20. According to the presentation made by the representatives of ICAI during a meeting held in Delhi on 17 January 2011, the strategy regarding the process of convergence to IFRS has been to make appropriate modifications in IFRS, taking into consideration the following matters: the legal and regulatory environment and economic conditions in India, industry preparedness and practice in India, and the removal of some options permitted under IFRS and differences in concepts.

21. Consequently, the ICAI has published a new version of the Indian converged standards, having as its starting point the relevant IFRS as issued by the International Accountings Standards Board (IASB) modified for the purpose of application in India as a result of the elements itemised above. Each standard issued contains an Appendix highlighting the differences between the converged Indian standard and the IFRS concerned.

22. For the purpose of our meeting in Delhi, the ICAI representatives provided us with a list indicating the main differences between the new converged Indian standards and IFRS and the reasons for the modifications made. On the basis of the discussions held regarding those differences, we have classified them into four categories, which are presented below, together with relevant examples for each category:

    a. Standards for which there is no equivalent under Indian converged standards, such as:

        i. Accounting for agreements for the construction of real estate: no converged Indian standard has been issued and the method for revenue recognition follows the percentage of completion method and not the method required under IFRIC 15 – Agreements for the Construction of Real Estate.

        ii. Accounting for biological assets: the converged Indian standard has not been released as it is considered that the fair value method cannot be applied because of the lack of information regarding such values in the Indian market. We have been told that the standard will be issued in the near future, but currently there is no equivalent for IAS 41 – Agriculture.

    b. Standards with significant departures from IFRS, such as:

        i. Accounting for the excess value of net assets acquired over purchase consideration: the converged Indian standard requires recognition of the excess in equity directly or through other comprehensive income depending on evidence of bargain purchase and not in profit or loss as required under IFRS 3- Business combinations

   ii. Accounting for gains resulting from the deterioration of own credit risk: the Indian standard converged to IAS 39 has been modified and any variation in fair value relating to a change in own credit risk is not recognised in the accounts, as required under IAS 39 – Financial Instruments : Recognition and Measurement.

   iii. Classification of particular types of financial instruments: the converged Indian standard has been modified to scope out foreign currency convertible bonds from the definition of a financial liability as required under IAS 32 - Financial Instruments: Presentation.

c. Standards for which an option (alternative treatment) has been removed:

   i. Accounting for employee benefits: the options to use the corridor method for the recognition of the actuarial gains and losses and the recognition thereof in profit or loss have been removed. Such gains/losses are required to be recognised in other comprehensive income.

   ii. Specific departures related to first time application such as: companies are not obliged to provide comparative information for the prior period, and are permitted to use the carrying values of the assets as on the date of transition as deemed cost, etc.

d. Standards for which there are minor changes: there have been also some minor adjustments made to other standards.

The ICAI has provided a list of all main changes in the converged Indian Accounting Standards compared to IFRS (ref Annex I).

23. We have been told than no formal impact assessment has been performed in order to analyse the magnitude of the impact of the differences.

24. According to a presentation made by a representative of the RBI, a working group has been constituted by the RBI to address implementation issues and facilitate the formulation of operational guidelines for Indian banks. While the process has not yet been finalised, we understand that one difference that might arise is in respect of the determination of provisions for impairment which the Indian representatives believe would be better made following current prudential norms rather than the method required under IAS 39 or being proposed under IFRS 9 – Financial Instruments.

25. We have been told that no decision has been taken with respect to convergence with the newly published standard IFRS 9: - Financial Instruments, as the standard is not considered stable yet. A decision on convergence will be taken at a later date.

Future plans related to convergence

26. As there are still a number of significant differences between the converged Indian standards and IFRS, we have asked what the Indian authorities' future plans are with respect to convergence. We have been told that India has the intention to try to further reduce or even to eliminate the differences, mainly by

addressing the issues to the IASB and asking the IASB to take them into account when amending or revising the relevant IFRS standards.

27. India has one member on the board of the IASB and has recently increased its contribution to the IASB's activities by sending comments letters on the exposure drafts issued by the IASB.

28. As at the date of the meeting, there was no official press release with respect to future plans.

VI Evolution of the process for implementing the roadmap

29. In January and March 2010, the MCA issued press releases with respect to the scope of implementation of the converged Indian standards. Further clarifications have been issued in May 2010. The roadmap distinguishes 3 phases, with companies adopting the converged Indian standards with effect from 1 April 2011, 2013 or 2014 depending on criteria related to the net worth of the entity as of 31 March 2009. Insurance companies are required to apply the converged Indian standards in 2012 and banks in 2013 or 2014 depending also on the nature of their activities and their net worth. The press release of the Roadmap is presented in Annex II.

30. As indicated above, in order to become mandatory for all companies, the converged Indian standards need to be adopted by the Government after receiving advice from NACAS. As of the date of our meeting, the new version of the converged Indian standards had yet to be adopted by the Government. We have also been told that the Government might still make changes to the current version published by the ICAI.

31. In India, the new converged Indian standards will apply to the preparation of both consolidated and stand alone financial statements. The requirement to apply the standards to the stand alone financial statements has implications in terms of income tax and other statutory requirements related to the distribution of the retained earnings of a company. The ICAI has submitted its report on tax issues to the relevant Ministry.

32. Due to an exemption from providing comparatives in the first year, it is our understanding that the first full financial statements prepared with comparatives will be those for the year ending 31 March 2013 with opening balance sheets as of 1 April 2011.

33. According to the information provided after our meeting, the Indian issuers which are already applying IFRS for the purpose of their listing on European or United States markets will also be required to apply the converged Indian Accounting Standards as the first time adopters. These entities will not be able to use their previous IFRS reporting as the opening balance sheet in the financial statements prepared under the converged Indian standards. These entities will not be allowed to use IFRS for the purposes of their financial reporting on Indian markets.

34. During our visit to Delhi, we found out that the Federation of Indian Chambers of Commerce and Industry has asked for the implementation of the converged Indian accounting standards to be deferred. At our request, the MCA and ICAI representatives indicated to us that the intention was to maintain the dates as indicated in the roadmap.

35. However, in February 2011 and subsequent to our visit, the MCA issued a press release stating that the implementation of the IFRS converged Indian Accounting Standards would take place in a phased

manner after various issues, including some related to taxation, had been resolved. In the same press release, the MCA indicated that the exact date of implementation would be notified by the Ministry at a later date.

VII Enforcement experience

36. As indicated above, SEBI is the main enforcer for listed companies in India. In 2010, SEBI issued an amendment to the Listing Agreement in order to allow voluntary application of IFRS before they become mandatory on 1 April 2011. We were informed during a meeting with SEBI on 18 January 2011 that no issuer in India has early adopted IFRS.

37. Because of an obligation on companies to use Indian GAAP when listed on Indian capital markets, SEBI has no experience enforcing any standards other than current Indian GAAP. Companies which prepare financial statements under IFRS because of a listing abroad are not subject to enforcement in India.

38. It is not therefore possible at this stage to make any meaningful analysis of the enforcement process in India either for IFRS or for the new converged Indian standards.

VIII Other matters

39. As indicated in our previous reports, India has taken actions to ensure an appropriate process of education and training for the relevant participants in the financial reporting process.

IX Preliminary conclusions

40. On the basis of the information received during and after the meetings in India, we have identified some potential areas of concern with the progress made towards convergence, as presented below:

    a. The strategy followed by the Indian authorities regarding the convergence process has been to adopt IFRSs as issued by the IASB and modify them for the specific legal and economic context in India. Consequently the Indian version of IFRS appears to have a potentially significant number of differences (carve-outs) from IFRS, some of which when the standards are actually used may constitute significant departures from IFRS.

    b. India has indicated its intention to bring to the attention of the IASB the specific issues which are currently part of the differences between the converged Indian standards and IFRS. As at the date of our meeting, there was no public commitment with respect to the elimination of those differences.

    c. There is no experience in India regarding IFRS enforcement, because there are no issuers, Indian or otherwise, who already apply IFRS.

d. The roadmap for implementation of the converged standards by companies is spread over a 3 year period (2011 to 2014), with the final group of companies adopting the Indian version of IFRS in 2014. According to a press release issued by the MCA in February 2011 there are significant concerns about the date chosen for IFRS transition, and it appears very likely that this date will be postponed for at least one year, i.e. to 1 April 2012.

Annex I: Paper on the main differences between the converged Indian standards and IFRS, as prepared and provided by the ICAI

Annex II: Roadmap for the implementation of the converged Indian standards, as published by the MCA in March 2010.

Annex III: MCA Press release issued on February 2011

Annex I: Paper on the main differences between the converged Indian standards and IFRS, as prepared and provided by the ICAI

DIFFERENCES BETWEEN IFRSs/IASs and IND ASs

A. Carve-outs

Ind AS 11, *Construction Contracts*

Appendices A and B to Ind AS 11 (corresponding to IFRIC 12) and (SIC 29), Service Concession Arrangements and Service Concession Arrangements: Disclosures respectively would not be notified along with the other standards and their application has been deferred.

Ind AS 17, *Leases*

Appendix C to Ind AS 17 (corresponding to IFRIC 4), Determining Whether an Arrangement contains a Lease would not be notified alongwith the other standards and its application has been deferred.

Ind AS 18, *Revenue*

(i) A footnote has been added in paragraph 1 to Ind AS 18, Revenue, that for rate regulated entities, this standard shall stand modified, where and to extent the recognition and measurement of revenue of such entities is affected by recognition and measurement of regulatory assets/liabilities as per the Guidance Note on the subject being issued by the Institute of Chartered Accountants of India.

(ii) On the basis of principles of the IAS 18, IFRIC 15 on Agreement for Construction of Real Estate prescribes that construction of real estate should be treated as sale of goods and revenue should be recognised when the entity has transferred significant risks and rewards of ownership and retained neither continuing managerial involvement nor effective control. IFRIC 15 has not been included in Ind AS 18. Such agreements have been scoped out from Ind AS 18 and have been included in Ind AS 11, Construction Contracts.

Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*

Ind AS 21 permits an option to recognise exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity. In this situation, Ind AS 21 requires the accumulated exchange differences to be amortised to profit or loss in an appropriate manner. IAS 21 does not permit such a treatment.

Ind AS 28, *Investment in Associates*

(i) IAS 28 requires that difference between the reporting period of an associate and that of the investor should not be more than three months, in any case. The phrase 'unless it is impracticable' has been added in the relevant requirement i.e., paragraph 25 of Ind AS 28.

(ii) IAS 28 requires that for the purpose of applying equity method of accounting in the preparation of investor's financial statements, uniform accounting policies should be used. In other words, if the associate's accounting policies are different from those of the investor, the investor should change the financial statements of the associate by using same accounting policies. The phrase, 'unless impracticable to do so' has been added in the relevant requirements i.e., paragraph 26 of Ind AS 28.

Ind AS 32, ***Financial Instruments: Presentation***

As an exception to the definition of 'financial liability' in paragraph 11 (b) (ii), Ind AS 32 to consider the equity conversion option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of entity's own equity instruments as an equity instrument if the exercise price is fixed in any currency. This exception is not provided in IAS 32.

Ind AS 39, ***Financial Instruments: Recognition and Measuremenst***

A provision has been added to paragraph 48 of Ind AS 39 that in determining the fair value of the financial liabilities which upon initial recognition are designated at fair value through profit or loss, any change in fair value consequent to changes in the entity's own credit risk shall be ignored. IAS 39 requires all changes in fair values in case of such liabilities to be recognised in profit or loss.

Ind AS 103, ***Business Combinations***

IFRS 3 requires bargain purchase gain arising on business combination to be recognised in profit or loss. Ind AS 103 requires the same to be recognised in other comprehensive income and accumulated in equity as capital reserve, unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case, it shall be recognised directly in equity as capital reserve.

Ind AS 106, ***Exploration for and Evaluation of Mineral Resources***

Ind AS 106 corresponding to IFRS 6, Exploration for and Evaluation of Mineral Resources, would not be notified immediately as it is under consideration of the Government.

Ind AS 101, First-time Adoption of Indian Accounting Standards

(i) Presentation of comparatives in the First-time Adoption of Indian Accounting Standards (Ind-AS) 41 (corresponding to IFRS 1)

IFRS 1 defines transitional date as beginning of the earliest period for which an entity presents full comparative information under IFRS. It is this date which is the starting point for IFRS and it is on this date the cumulative impact of transition is recorded based on assessment of conditions at that date by applying the standards retrospectively except to the extent specifically provided in this standard as optional exemptions and mandatory exceptions. Accordingly, the comparatives, i.e., the previous year figures are also presented in the first financial statements prepared under IFRS on the basis of IFRS.

Ind-AS 101, however, requires an entity to provide comparatives as per the existing notified Accounting Standards. It is provided that, in addition to aforesaid comparatives, an entity may also provide comparatives as per Ind-AS on a memorandum basis.

(ii) Reconciliations

IFRS 1 requires reconciliations for opening equity, total comprehensive income, cash flow statement and closing equity for the comparative period to explain the transition to IFRS from previous GAAP.

As Ind-AS 101, provides an option to provide a comparative period financial statements on memorandum basis. Where the entities do not exercise this option and, therefore, do not provide comparatives, need not provide reconciliation for total comprehensive income, cash flow statement and closing equity in the first year of transition but are expected to disclose significant differences pertaining to total comprehensive income. Entities that provide comparatives would have to provide reconciliations which are similar to IFRS.

(iii) Elimination of effective dates prior to transition date under Ind-AS 101 First-time Adoption of Indian Accounting Standards (corresponding to IFRS 1)

IFRS 1 provides for various dates from which a standard could have been implemented. For example, IFRS 1 provides that an entity is encouraged, but not required, to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before 7 November 2002 or to instruments that were granted after 7 November 2002 and vested before the later of (a) the date of transition to IFRSs and (b) 1 January 2005. Further, IFRS 1 provides that an entity would have had to adopt the de-recgonition requirements in IAS 39 prospectively for transactions entered after 1 January, 2004.

Ind-AS 101 provides that all these dates would be changed to coincide with the transition date elected by the entity adopting these converged standards.

(iv) Cost of Non-current Assets Held for Sale and Discontinued Operations on the date of transition on First-time Adoption of Indian Accounting Standards (Ind-AS)

Ind-AS 101 provides transitional relief that while applying Ind AS 105 - Non-current Assets Held for Sale and Discontinued Operations, an entity may use the transitional date circumstances to measure such assets or operations at the lower of carrying value and fair value less cost to sell.

(v) Transitional Relief from retrospective application of certain requirements of Ind AS 19 Employee Benefits

Ind AS 19 requires recognition of actuarial gains and losses for post-employment defined benefit plans and other long-term employment benefit plans in other comprehensive income immediately and are not reclassified to profit or loss in a subsequent period. However, Ind AS 101 provides that a first-time adopter may elect to recognise all cumulative actuarial gains and losses subsequent to the date of transition to Ind-AS in other comprehensive income.

(vi) Exemption as a consequence of optional treatment prescribed in Ind AS 21, The Effects of Changes in Foreign Exchange Rates, in context of exchange differences arising on account of certain long-term monetary assets or long-term monetary liabilities

Ind AS 101 provides that on the date of transition, if there are long-term monetary assets or long-term monetary liabilities mentioned in paragraph 29A of Ind AS 21, an entity may exercise the option mentioned in that paragraph regarding spreading over the unrealised Gains/Losses over the life of Assets/Liabilities either retrospectively or prospectively. If this option is exercised prospectively, the accumulated exchange differences in respect of those items are deemed to be zero on the date of transition.

(vii) Exemptions regarding designation of previously recognised financial instruments

Ind AS 101 provides that the financial instruments carried at amortised cost should be measured in accordance with Ind AS 39 from the date of recognition of financial instruments unless it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements of Ind AS 39. If it is impracticable to do so then the fair value of the financial asset at the date of transition to Ind-ASs shall be the new amortised cost of that financial asset at the date of transition to Ind-ASs.

Ind AS 101 provides another exemption that financial instruments measured at fair value shall be measured at fair value as on the date of transition to Ind-AS.

(viii) Definition of previous GAAP under Ind-AS 41 First-time Adoption of Indian Accounting Standards

IFRS 1 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS.

Ind AS 101 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting Ind-AS for complying with the reporting requirements in India.

(ix) Cost of Property, Plant and Equipment (PPE), Intangible Assets, Investment Property, on the date of transition of First-time Adoption of Indian Accounting Standards.

Ind AS 101 provides an entity an option to use carrying values of all assets as on the date of transition in accordance with previous GAAP as an acceptable starting point under Ind AS

Indian Accounting Standard on *Agriculture* (Corresponding to IAS 41)

IAS 41, Agriculture, requires measurement of biological assets, viz., living animals and plants at fair value and recognizing gains and losses arising on such measurement in profit or loss. The standard presumes availability of fair values for various biological assets. In the Indian market, since fair values of biological assets, such as, standing crops, plants, living animals etc. are not readily available and where available their reliability is doubtful, it is proposed to revise the Standard and not to issue the standard as it is.

B Other major changes in Indian Accounting Standards vis-a-vis IFRSs/IASs not resulting in carve-outs

Ind AS 1, *Presentation of Financial Statements*

With regard to preparation of Statement of profit and loss, IAS 1, Presentation of Financial Statements, provides an option either to follow the single statement approach or to follow the two statement approach. While in the single statement approach, all items of income and expense are recognised in the statement of profit and loss, in the two statements approach, two statements are prepared, one displaying components of profit or loss (separate income statement) and the other beginning with profit or loss and displaying components of other comprehensive income. Ind AS 1 allows only the single statement approach.

IAS 1 requires preparation of a Statement of Changes in Equity as a separate statement. Ind AS 1 requires the Statement of Changes in Equity to be shown as a part of the balance sheet.

IAS 1 gives the option to individual entities to follow different terminology for the titles of financial statements. Ind AS 1 is changed to remove alternatives by giving one terminology to be used by all entities.

IAS 1 permits the periodicity, for example, of 52 weeks for preparation of financial statements. Ind AS 1 does not permit it.

IAS 1 requires an entity to present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the equity. Ind AS 1 requires only nature-wise classification of expenses.

IAS 1 contains Implementation Guidance. Ind AS 1 does not include the same because various enactments have prescribed formats, e.g., Schedule VI to the Companies Act, 1956.

Ind AS 7, *Statement of Cash Flows*

In case of other than financial entities, IAS 7 gives an option to classify the interest paid and interest and dividends received as item of operating cash flows. Ind AS 7 does not provide such an option and requires these items to be classified as items of financing activity and investing activity, respectively.

IAS 7 gives an option to classify the dividend paid as an item of operating activity. However, Ind AS 7 requires it to be classified as a part of financing activity only.

Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*

Ind AS 8 has been amended to provide that in absence of specific Ind AS on the subject, management may also first consider the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices.

Ind AS 16, *Property, Plant and Equipment*

Language of paragraph 8 has been changed to clarify more precisely that 'servicing equipment' also qualifies as property, plant and equipment when an entity expects to use them during more than one period.

Ind AS 19, *Employee Benefits*

According to Ind AS 19 the rate to be used to discount post-employment benefit obligation shall be determined by reference to the market yields on government bonds, whereas under IAS 19, the government bonds can be used only where there is no deep market of high quality corporate bonds.

To illustrate treatment of gratuity subject to ceiling under Indian Gratuity Rules, an example has been added in Ind AS 19.

Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*

IAS 20 gives an option to measure non-monetary government grants either at their fair value or at nominal value. Ind AS 20 requires measurement of such grants only at their fair value. Thus, the option to measure these grants at nominal value is not available under Ind AS 20.

IAS 20 gives an option to present the grants related to assets, including non-monetary grants at fair value in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. Ind AS 20 requires presentation of such grants in balance sheet only by setting up the grant as deferred income. Thus, the option to present such grants by deduction of the grant in arriving at the carrying amount of the asset is not available under Ind AS 20.

Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*

When there is a change in functional currency of either the reporting currency or a significant foreign operation, IAS 21 requires disclosure of that fact and the reason for the change in functional currency. Ind AS 21 requires an additional disclosure of the date of change in functional currency.

The following examples have been included in Ind AS 21, The Effects of Changes in Foreign Exchange Rates, as Appendix B:

-An example to clarify the provisions of paragraph 14.

-An example to clarify impairment loss in Paragraph 25.

-An example to clarify paragraphs 33 and 37.

The date of change of functional currency should also be disclosed in paragraph 57.

Ind AS 23, *Borrowing Costs*

IAS 23 provides no guidance as to how the adjustment prescribed in paragraph 6(e) is to be determined. Ind AS 23 provides guidance in this regard.

Ind AS 24, *Related Party Disclosures*

In Ind AS 24, disclosures which conflict with confidentiality requirements of statute/regulations are not required to be made since Accounting Standards can not override legal/regulatory requirements.

Paragraph 24A (reproduced below) has been included in the Ind AS 24. It provides additional clarificatory guidance regarding aggregation of transactions for disclosure.

"24A Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of fixed assets. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure."

In the definition of the 'close members of the family of a person', relatives as specified under the meaning of 'relative' under the Companies Act, 1956, has been included.

Ind AS 27, *Consolidated and Separate Financial Statements*

Paragraphs 8, 10 and 42 have been deleted and paragraphs 9, 11, 39 and 43 have been modified as the applicability or exemptions to the Indian Accounting Standards is governed by the Companies Act and the Rules made thereunder.

A sentence has been added in paragraph 9 of Ind AS 27, Consolidated and Separate Financial Statements requiring that for companies the form of consolidated financial statements as given in Appendix C to this standard shall be applied to the extent circumstances admit.

Ind AS 29, *Financial Reporting in Hyperinflationary Economies*

Ind AS 29 requires an additional disclosure regarding the duration of the hyperinflationary situation existing in the economy.

Ind AS 33, *Earnings per Share*

IAS 33 provides that when an entity presents both consolidated financial statements and separate financial statements, it may give EPS related information in consolidated financial statements only, whereas, the Ind AS 33 requires EPS related information to be disclosed both in consolidated financial statements and separate financial statements.

Paragraph 2 of IAS 33 requires that the entire standard applies to :

(a) the separate or individual financial statements of an entity:

(i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or

(ii) that files, or is in the process of filing, its financial statements with a Securities Regulator or other regulatory organisation for the purpose of issuing ordinary shares in a public market; and

(b) the consolidated financial statements of a group with a parent:

(i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or

(ii) that files, or is in the process of filing, its financial statements with a Securities Regulator or other regulatory organisation for the purpose of issuing ordinary shares in a public market..

It also requires that an entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.

The above have been deleted in the Ind AS as the applicability or exemptions to the Indian Accounting Standards is governed by the Companies Act and the Rules made there under.

Paragraph 4 has been modified in Ind AS 33 to clarify that an entity shall not present in separate financial statements, earnings per share based on the information given in consolidated financial statements, besides requiring as in IAS 33, that earnings per share based on the information given in separate financial statements shall not be presented in the consolidated financial statements.

In Ind AS 33, a paragraph has been added after paragraph 12 on the following lines -

"Where any item of income or expense which is otherwise required to be recognized in profit or loss in accordance with accounting standards is debited or credited to securities premium account/other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating basic earnings per share."

In Ind AS 33 paragraph 15 has been amended by adding the phrase, 'irrespective of whether such discount or premium is debited or credited to securities premium account' to further clarify that such discount or premium shall also be amortised to retained earnings.

Ind AS 34, *Interim Financial Reporting*

A footnote has been added to paragraph 1of Ind AS 34, Interim Financial Reporting that Unaudited Financial Results required to be prepared and presented under Clause 41 of Listing Agreement with stock exchanges is not an 'Interim Financial Report' as defined in paragraph 4 of this Standard.

Ind AS 40, *Investment Property*

IAS 40 permits both cost model and fair value model (except in some situations) for measurement of investment properties after initial recognition. Ind AS 40 permits only the cost model.

Ind AS 101 *First-time Adoption of Indian Accounting Standards*

Paragraph 3 of Ind-AS 101 specifies that an entity's first Ind-AS financial statements are the first annual financial statements in which the entity adopts Ind-ASs in accordance with Ind-ASs notified under the Companies Act, 1956 whereas IFRS 1 provides various examples of first IFRS financial statements.

Paragraph 4 of IFRS 1 provides various examples of instances when an entity does not apply this IFRS. Ind AS 101 does not provide the same.

IFRS 1 requires specific disclosures if the entity provides non-IFRS comparative information and historical summaries. Such disclosures are not required under Ind-AS 101.

Ind AS 103, *Business Combinations*

IFRS 3 excludes from its scope business combinations of entities under common control. Appendix C of Ind AS 103 gives guidance in this regard.

C IAS and relevant Interpretations not included in Ind AS as these are considered not relevant for companies in India

1. Indian Accounting Standard corresponding to IAS 26, Accounting and Reporting by Retirement Benefit Plans, has not been considered relevant for companies, therefore, the same is not being notified under the Companies Act, 1956.

2. IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments issued by IASB has not been considered relevant for companies, as only an individual can hold shares in cooperative entities, therefore, the same is not being notified under the Companies Act, 1956.

3. SIC 7, Introduction of the Euro issued by IASB has not been considered relevant fin Indian context, therefore, the same has not been issued.

4. Paragraph 1(b) of IAS 28 has been deleted in Ind AS 28 as the Companies Act, 1956, is not applicable to mutual funds, unit trusts and similar entities including investment linked insurance funds and, thus, this standard would not be applicable to such entities.

Similar change has been made in Ind AS 31, Interests in Joint Ventures

5. Paragraph 1(b) of IAS 31 has been deleted in Ind AS 31 as the Companies Act, 1956, is not applicable to mutual funds, unit trusts and similar entities including investment linked insurance funds and, thus, this standard would not be applicable to such entities.

Notes:

1. Differences between Indian Accounting Standards (Ind-ASs) and corresponding IFRSs/IASs are given in Appendix 1 at the end of each Indian Accounting Standard.

2. Apart from the changes in IASs/IFRSs as a result of carve-outs and other changes as described in above section, changes consequential thereto have also been made in all Ind ASs, wherever required.

Annex II: Roadmap for the implementation of the converged Indian standards, as published by the Ministry of Corporate Affairs in March 2010.

PRESS RELEASE

A meeting of the Core Group constituted by the Ministry of Corporate Affairs for convergence of Indian Accounting Standards with International Financial Reporting Standards (IFRS) from the year 2011 was held on 29th March, 2010 under the chairmanship of Shri R. Bandyopadhyay, Secretary, Ministry of Corporate Affairs. The meeting was attended by the officials from Ministry of Finance, SEBI, RBI, IRDA, C&AG, PFRDA, ICAI, Industry representatives and other experts.

2. The Core Group referred to the Roadmap for Convergence agreed to by it in its meeting held on 11th January, 2010 in respect of companies, other than insurance companies, banking companies and Non-Banking Finance Companies. Such Roadmap was brought to the knowledge of all stakeholders through the Press Release issued by this Ministry on 22nd January, 2010.

3. In the meeting held on 29th March, 2010, the Core Group deliberated and approved the Roadmap recommended by Sub-Group I in respect of insurance companies, banking companies and non-banking finance companies. The Roadmap recommended by Sub-Group I for such classes of companies is as under:-

i) **Insurance companies**:-
All insurance companies will convert their opening balance sheet as at 1st April, 2012 in compliance with the converged Indian Accounting Standards.

ii) **Banking companies**:-

(a) All scheduled commercial banks and those urban co-operative banks (UCBs) which have a net worth in excess of Rs. 300 crores will convert their pening balance sheet as at 1st April, 2013 in compliance with the first set of Accounting Standards (i.e. the converged Indian Accounting Standards).

(b) Urban co-operative banks which have a net worth in excess of Rs. 200 crores but not exceeding Rs. 300 crores will convert their opening balance sheets as at 1st April, 2014 in compliance with the first set of Accounting Standards (i.e. the converged Indian Accounting Standards).

(c) Urban co-operative banks which have a net worth not exceeding Rs. 200 crores and Regional Rural banks (RRBs) will not be required to apply the first set of Accounting Standards i.e. the converged Indian Accounting Standards (though they may voluntarily opt to do so) and need to follow only the existing notified Indian Accounting Standards which are not converged with IFRSs.

iii) **Non-Banking Financial companies**

(a) The following categories of non-banking financial companies (NBFCs) will convert their opening balance sheet as at 1st April, 2013 if the financial year commences on 1st April (or if the financial year commences on any other date, then on the date immediately following 1st April, 2013) in compliance with the first set of Accounting Standards (i.e the converged Indian Accounting Standards). These NBFCs are:-

a. Companies which are part of NSE – Nifty 50
b. Companies which are part of BSE - Sensex 30
c. Companies, whether listed or not, which have a net worth in excess of Rs.1,000 crores.

(b) All listed NBFCs and those unlisted NBFCs which do not fall in the above categories and which have a net worth in excess of Rs. 500 crores will convert their opening balance sheet as at 1st April 2014 if the financial year commences on 1st April (or if the financial year commences on any other date, then on that date following 1st April 2014) in compliance with the first set of Accounting standards (i.e converged Indian Accounting Standards).

(c) Unlisted NBFCs which have a net worth of Rs. 500 crores or less will not be required to follow the first set of accounting standards (i.e the converged Indian accounting standards), though they may voluntarily opt to do so, but need to follow only the notified Indian accounting standards which are not converged with the IFRSs.

4. The Core Group expressed satisfaction about the progress being made in developing necessary capacity building measures and creating awareness on the matter and expressed confidence on the implementation of roadmap in a timely and consultative manner.

PRESS RELEASE - 3/2010

No. 1/1/2009-IFRS

Dated the 31st March, 2010

Ministry of Corporate Affairs

The Press Information Officer, Press Information Bureau, Ministry of Information and Broadcasting, with the request that the above mentioned Press Note may be given wide publicity.

(Renuka Kumar)

Joint Secretary to the Government of India

Tel:23074056

Annex III: MCA Press release issued February 2011

PRESS RELEASE

Reliable, consistent and uniform financial reporting is important part of good corporate governance practices worldwide in order to enhance the credibility of the businesses in the eyes of investors to take informed investment decisions. In pursuance of G-20 commitment given by India, the process of convergence of Indian Accounting Standards with IFRS has been carried out in Ministry of Corporate Affairs through wide ranging consultative exercise with all the stakeholders. Thirty five Indian Accounting Standards converged with International Financial Reporting Standards (henceforth called IND AS) are being notified by the Ministry and placed on the website. . These are: IND ASs 1, 2, 7, 8, 10, 11, 12, 16, 17, 18, 19, 20, 21, 23, 24, 27, 28, 29, 31, 32, 33, 34, 36, 37, 38, 39, 40, 101, 102, 103, 104, 105, 106, 107 and 108. The Ministry of Corporate Affairs will implement the IFRS converged Indian Accounting Standards in a phased manner after various issues including tax related issues are resolved with the concerned Departments. It would be ensured that the implementation of the converged standards in a phased manner is smooth for the stakeholders. The date of implementation of the IND AS will be notified by the Ministry at a later date.

The Press Release and IND ASs are available on the Ministry's website at www.mca.gov.in .

PRESS RELEASE- 7/2011

No.1/1/2009-IFRS

Dated the 25th February, 2011

Ministry of Corporate Affairs

The Press Information Officer, Press Information Bureau, Ministry of Information and Broadcasting, with the request that the above mentioned Press Note may be given wide publicity.

(Renuka Kumar)

Joint Secretary to the Government of India
Tel: 23074056
