Ind AS roadmap for banks, insurance companies and NBFCs

In pursuance to the budget announcement by the Union Finance Minister, after consultation with the Reserve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA) and Pension Fund Regulatory and Development Authority (PFRDA), the Ministry of Corporate Affairs (MCA) issued a press release on 18 January 2016, announcing the Ind AS roadmap for scheduled commercial banks (excluding regional rural banks [RRBs]), insurers/ insurance companies and non-banking financial companies (NBFCs). Draft notifications/rules will be issued, as required, by MCA, RBI and IRDA in due course.

These are welcome developments and all regulators are actively engaged in pushing forward the Ind AS agenda. This has provided much-needed clarity and direction to entities in the financial services and insurance sector .

In summary, all scheduled commercial banks (except RRBs), all-India term-lending refinancing institutions, insurers/insurance companies and NBFCs (all listed and unlisted companies having a net worth of 250 crore INR or more) will be required to adopt Ind AS. Ind AS will be applicable to both consolidated and individual financial statements.

Scheduled commercial banks (excluding RRBs) and insurers/insurance companies:

Mandatory for accounting periods beginning from 1 April 2018 onwards

- Scheduled commercial banks (excluding RRBs)
- All-India term-lending refinancing institutions (i.e. Exim Bank, NABARD, NHB and SIDBI)
- Insurers/insurance companies
- Notwithstanding the roadmap for companies, holding, subsidiary, joint venture or associate companies of scheduled commercial banks

- Comparative information required for the period ending 31 March 2018 or thereafter

NBFCs: NBFCs will be required to prepare Ind AS based financial statements in two phases.

Phase 1: Mandatory for accounting periods beginning from 1 April 2018 onwards

- NBFCs having a net worth of 500 crore INR or more
- Holding, subsidiary, joint venture or associate companies of the above, other than those companies already covered under the corporate roadmap announced by MCA

- Comparative information required for the period ending 31 March 2018 or thereafter

Phase 2: Mandatory for accounting periods beginning from 1 April 2019 onwards

- NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having a net worth less than 500 crore INR
- NBFCs that are unlisted companies, having a net worth of 250 crore INR or more but less than 500 crore INR
- Holding, subsidiary, joint venture or associate companies of companies covered above, other than those companies already covered under the corporate roadmap announced by MCA

- Comparative information required for the period ending 31 March 2019 or thereafter

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Voluntary adoption not permitted

- Scheduled commercial banks (excluding RRBs)/NBFCs/insurance companies/insurers shall apply Indian Accounting Standards (Ind AS) only if they meet the specified criteria; they shall not be allowed to voluntarily adopt Ind AS. This, however, does not preclude an insurer/ insurance company/NBFC from providing Ind AS compliant financial statement data for the purpose of preparation of consolidated financial statements by its parent/investor, as required by the parent/investor, to comply with the existing requirements of the law.

Companies/entities not covered in the roadmap

- NBFCs having a net worth below 250 crore INR and not covered under the above provisions shall continue to apply Accounting Standards specified in Annexure to Companies (Accounting Standards) Rules, 2006.
- Urban cooperative banks (UCBs) and RRBs shall not be required to apply Ind AS and shall continue to comply with the existing Accounting Standards for the present.

Implications

One of the most significant implications of Ind AS adoption by banks and NBFCs could be increased loan loss provisioning and consequent impact on capital if the new impairment rules of Ind AS 109, 'Financial instruments', are adopted in their entirety.

These rules require the recognition of expected credit losses based on forward-looking information and not just incurred losses. Reliable data and credit models will also be needed to properly apply these provisions.

Next steps

Implementing Ind AS is likely to impact key performance metrics and will require thoughtful communication with the board of directors, shareholders and other stakeholders. Internally, Ind AS implementation can have a wide-ranging impact on an entity's processes, systems, controls, income taxes and contractual arrangements. Successful Ind AS implementation will require a thorough strategic assessment, a robust step-by-step plan, alignment of resources and training, strong project management and, finally, smooth integration of various changes into normal business operations. In conclusion, sustainable processes must be established so that the Ind AS implementation exercise continues to yield meaningful information long after it has been completed.

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