Grant Thornton
An instinct for growth™

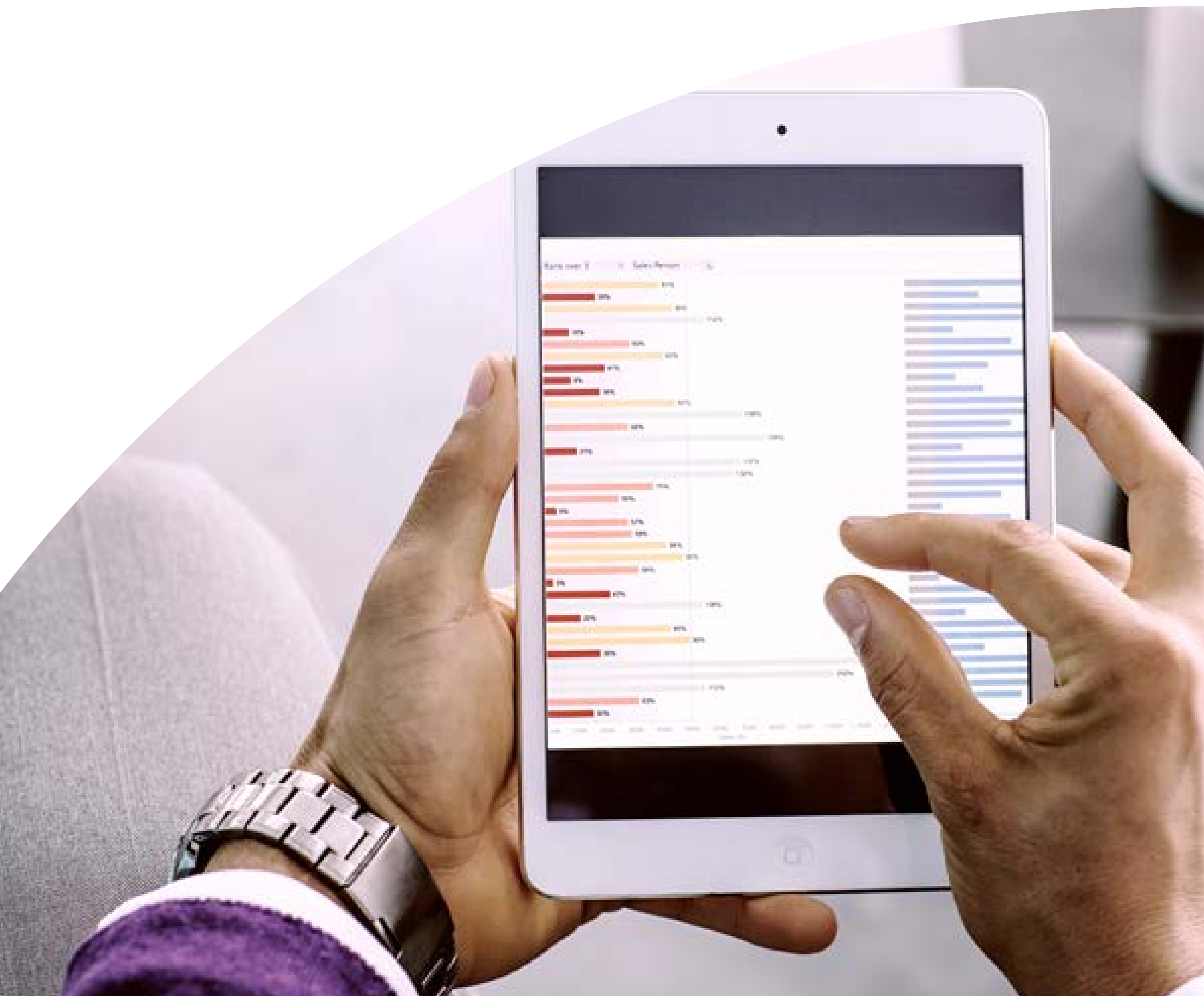
Audit

Accounting

Responsibility

Indian Accounting Standards (Ind AS) – Financial services sector converging to IFRS

Defining the roadmap for an efficient transition to the changing financial reporting environment for NBFCs



IFRS converged standards in India : Dawn of a new era

The final roadmap for Ind AS implementation by NBFCs, announced by the MCA, is as below:

Threshold	First period of reporting	Comparative information
All companies, with net worth of Rs 500 crores or more (whether listed or unlisted)*	Financial year beginning on or after 1 April 2018	Opening balance sheet as on or after 1 April 2017 and financial year ending on or after 31 March 2018
Other companies whose equity and/ or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India*	Financial year beginning on or after 1 April 2019	Opening balance sheet as on or after 1 April 2018 and financial year ending on or after 31 March 2019
Unlisted companies having net worth of Rs 250 crore or more, but less than Rs 500 crore*	Financial year beginning on or after 1 April 2019	Opening balance sheet as on or after 1 April 2018 and financial year ending on or after 31 March 2019

*Including holding, subsidiary, joint venture or associate companies of such companies

The notification covers all NBFCs as defined in clause (f) of Section 45-I of the Reserve Bank of India Act, 1934, and includes Housing Finance Companies, Merchant Banking Companies, Micro Finance Companies, Mutual Benefit Companies, Venture Capital Fund Companies, Stock Broker or Sub-Broker Companies, Nidhi Companies, Chit Companies, Securitisation and Reconstruction Companies, Mortgage Guarantee Companies, Pension Fund Companies, Asset Management Companies and Core Investment Companies.

NBFCs are not permitted to voluntarily adopt Ind AS earlier than the aforementioned timelines.

The definition of "net worth", to be considered for the applicability thresholds, is as per the Companies Act, 2013. Further, for the purpose of the above thresholds, net worth shall be calculated in accordance with the standalone financial statements of the company, as on 31 March 2016. If a company does not fall within the thresholds above as on 31 March 2016, Ind AS shall be adopted from the financial year succeeding the year-end on which it falls within the above thresholds.

Ind AS shall apply to both standalone and consolidated financial statements, except that the overseas subsidiaries, associates, joint ventures and other similar entities of an Indian company may prepare their standalone financial statements in accordance with the local requirements.

Transition to Ind AS – key considerations for NBFCs

Based on our study of the provisions of Ind AS and our experience with similar IFRS transition processes across the globe, following are the top five considerations for NBFCs planning similar transition:

1. **Amortised cost measurement of loan assets:**

   Upfront fees will be considered part of cash flows of the loan, and therefore, such income will get amortised over the period of the loan as per the effective interest rate. Accordingly, interest from accounting perspective may be different from interest from cash flow perspective. Further, accounting for loan modifications, changes in expected timing of cash flow, and restructuring will undergo a significant change.

2. **Provisioning of credit losses:**

   Ind AS 109 introduces the concept of 'expected credit losses'. Developed in the aftermath of the financial crisis, as a response to the criticism on accounting, the intention of the guidance is to have entities record a provision for credit losses, based on past experience, current circumstances and expectation on future economic conditions. Expected credit losses may be considered as the product of probability of default, loss given default and exposure at default.

   Making such estimates requires significant use of management judgement, and may require use of advanced credit risk modelling techniques to analyse historical data. It will be closely linked to the Company's own credit appraisal processes. Lack of adequate historical data may further add to the challenge for some companies.

   This would be a major change from the provisions made as per the RBI prudential norms, which is objective and based on the past due criteria, and appropriate understanding may be a challenge for all stakeholders involved.

3. **Fair valuation:**

   Ind AS would require certain financial instruments to be accounted for, at fair value.

   All equity investments, and debt investment which are not held within the business model of hold to maturity, or have cash flows other than payment of principal and interest, will need to be carried at fair value. This may have a major impact on NBFCs that enter into securitisation transactions. Further, all derivatives contracts are to be restated to fair value, with changes recognised in profit and loss statement.

   Non-fund based facilities like guarantees would need to be recorded on balance sheet, initially at fair value, and the income will be spread over the period of the instrument.

   Further, the Company will need to assess expected credit losses on such instruments on an ongoing basis.

4. **Consolidation**

   The new control definition under Ind AS, which is based on actual rights and economic substance of the arrangement rather than legal form, might require consolidation of previously unconsolidated entities in several circumstances. This is especially important for Securitisation and Reconstruction Companies, Asset Management Companies, Core Investment Companies, and NBFCs that enter into securitiaation arrangements.

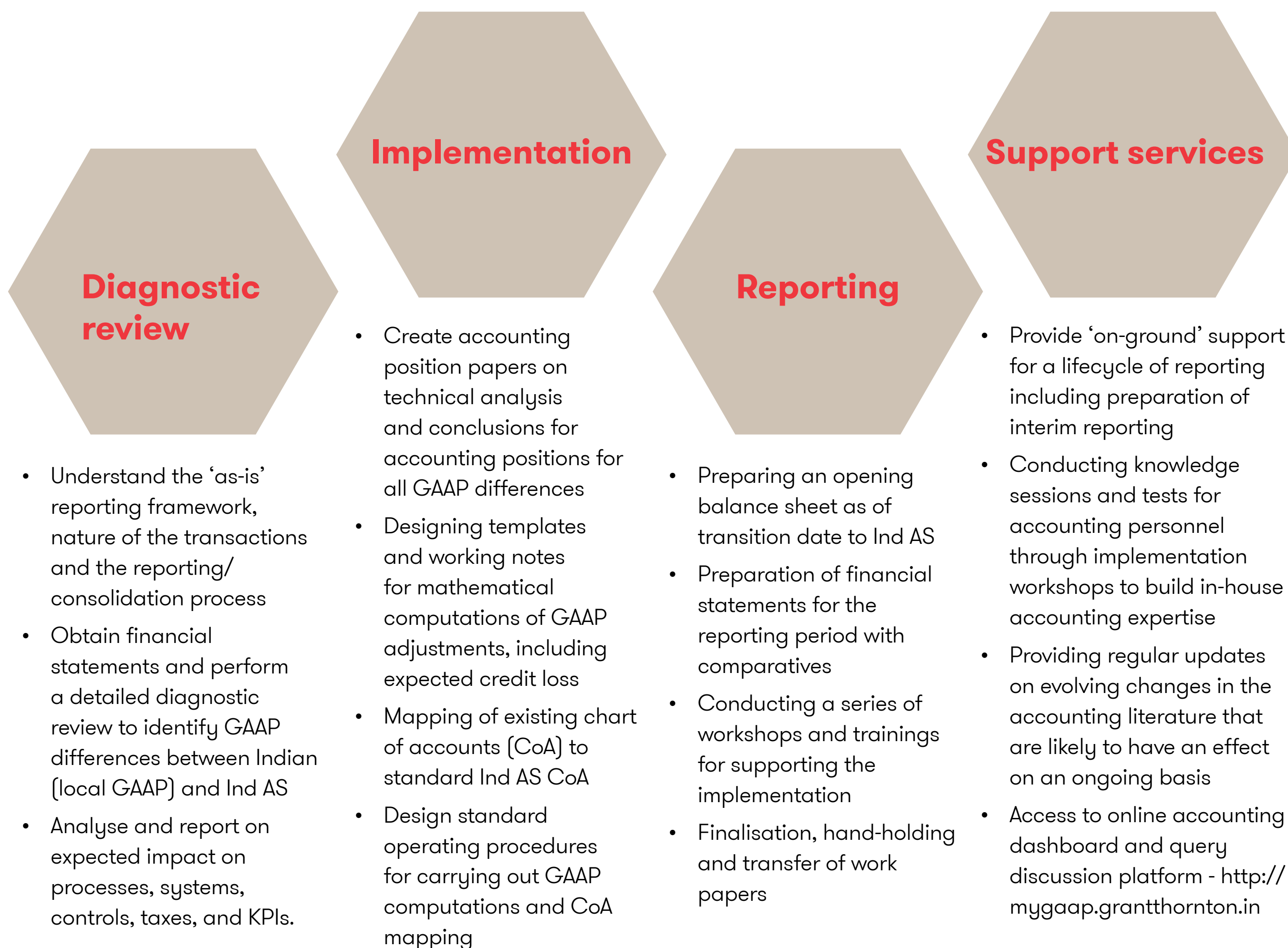
5. **Taxes:**

   Ind AS introduces the balance sheet approach for the computation of deferred tax, as opposed to P&L approach in the Indian GAAP. Further, there would be additional deferred tax impacts in the consolidated financial statements, on account of undistributed profits of group companies, fair value adjustments of acquired assets and intra-group profit elimination.

Our service : Preparation of financial statements in accordance with Ind AS

Our team comprises of financial reporting accounting, and industry experts, each having several years of hands-on practical experience across GAAPs and sectors. Our professionals uniquely combine their technical expertise with the intuition, insight and confidence gained from their extensive practical experience to develop a systematic, reliable, efficient and scalable reporting framework for converging from Indian GAAP to Ind AS.

This will entail a careful and well-documented evaluation (and suitable modifications) of the financial reporting process, in order to achieve an optimal balance between transparency, consistency, accuracy, reliability and speed, while also controlling costs.



Diagnostic review

- Understand the 'as-is' reporting framework, nature of the transactions and the reporting/ consolidation process
- Obtain financial statements and perform a detailed diagnostic review to identify GAAP differences between Indian (local GAAP) and Ind AS
- Analyse and report on expected impact on processes, systems, controls, taxes, and KPIs.

Implementation

- Create accounting position papers on technical analysis and conclusions for accounting positions for all GAAP differences
- Designing templates and working notes for mathematical computations of GAAP adjustments, including expected credit loss
- Mapping of existing chart of accounts (CoA) to standard Ind AS CoA
- Design standard operating procedures for carrying out GAAP computations and CoA mapping

Reporting

- Preparing an opening balance sheet as of transition date to Ind AS
- Preparation of financial statements for the reporting period with comparatives
- Conducting a series of workshops and trainings for supporting the implementation
- Finalisation, hand-holding and transfer of work papers

Support services

- Provide 'on-ground' support for a lifecycle of reporting including preparation of interim reporting
- Conducting knowledge sessions and tests for accounting personnel through implementation workshops to build in-house accounting expertise
- Providing regular updates on evolving changes in the accounting literature that are likely to have an effect on an ongoing basis
- Access to online accounting dashboard and query discussion platform - http:// mygaap.grantthornton.in

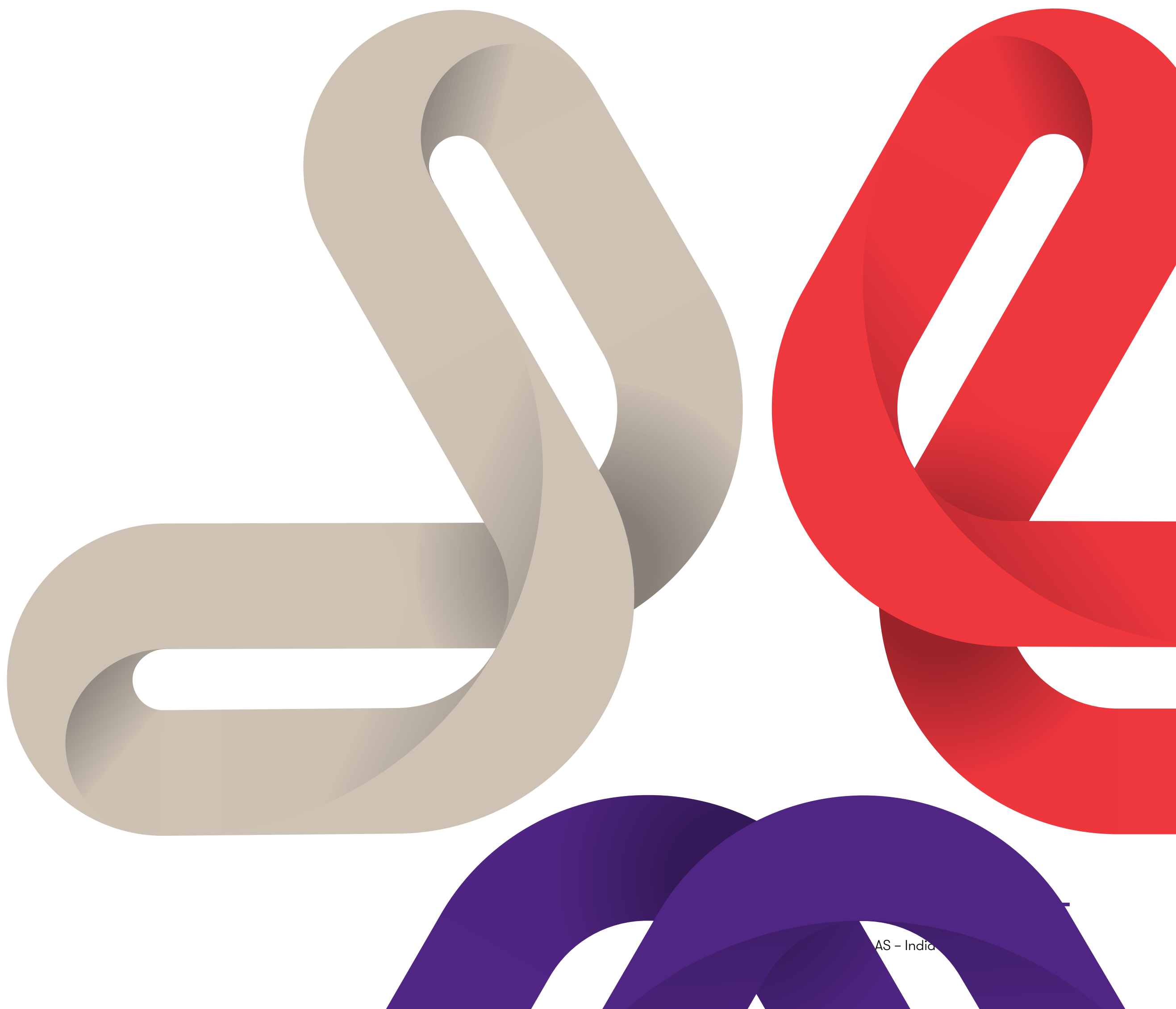
Our learnings from conversions

We have carried out IFRS/Ind AS conversion for more than 125 large corporate groups across various industries/sectors in the last few years. In this journey of helping our clients to navigate through the new accounting framework, there were a few clear themes that defined success of the change. Such issues, and the key learnings therefrom are noted below:

Issues identified	Key learnings
Identifying business changes	Timely knowledge of the possibly onerous Ind AS implications in areas like debt/equity classification, fair valuation of financial instruments etc. helped corporates in thinking of ways to mitigate them. Several industry constituents were able to successfully modify/clarify the contractual terms, that would have otherwise resulted in undesirable accounting answers.
Tax implications of Ind AS/IFRS adjustments	Understanding the interaction between accounting profits and taxable profits (ICDS), and the impact of Ind AS on the tax liabilities should be done at the sufficiently early stage. This may help corporates plan for the tax implications and evaluate any possible ways to mitigate them.
Impact on key financial ratios	Impact on key financial ratios that are the basis for managerial remuneration, loan covenants, earn-out payments, stakeholder/market analysis etc. should be considered to avoid 'shocks' at a later stage.
Considering it only an 'accounting' exercise	The process of transition into the new accounting framework requires adequate representation from the risk management team, information technology team (including third party vendors), treasury team, and also sales team. This results in the whole organization accepting the change, rather than the finance function having to bear all the effort.

Grant Thornton in India

Grant Thornton in India is a member of Grant Thornton International Ltd. It has over 3,000 people across 14 locations around the country, including major metros. Grant Thornton in India is at the forefront of helping reshape the values in our profession and in the process help shape a more vibrant Indian economy. Grant Thornton in India aims to be the most promoted firm in providing robust compliance services to dynamic Indian global companies, and to help them navigate the challenges of growth as they globalise. Firm's proactive teams, led by accessible and approachable partners, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients, and help them find growth solutions.



Contact us

To know more, please visit www.grantthornton.in or contact any of our offices as mentioned below:

NEW DELHI
National Office
Outer Circle
L 41 Connaught Circus
New Delhi 110001
T +91 11 4278 7070

NEW DELHI
6th floor
Worldmark 2,
Aerocity
New Delhi 110037
T +91 11 4952 7400

AHMEDABAD
7th Floor,
Heritage Chambers,
Nr. Azad Society,
Nehru Nagar,
Ahmedabad - 380015

BENGALURU
5th Floor, 65/2, Block A,
Bagmane Tridib,
Bagmane Tech Park,
C V Raman Nagar,
Bengaluru - 560093
T +91 80 4243 0700

CHANDIGARH
B-406A, 4th Floor
L&T Elante Office Building
Industrial Area Phase I
Chandigarh 160002
T +91 172 4338 000

CHENNAI
7th Floor, Prestige Polygon
471, Anna Salai, Teynampet
Chennai - 600 018
T +91 44 4294 0000

GURGAON
21st Floor, DLF Square
Jacaranda Marg
DLF Phase II
Gurgaon 122002
T +91 124 462 8000

HYDERABAD
7th Floor, Block III
White House
Kundan Bagh, Begumpet
Hyderabad 500016
T +91 40 6630 8200

KOCHI
6th Floor,
Modayil Centre point
Warriam road junction
M. G. Road
Kochi 682016
T +91 484 406 4541

KOLKATA
10C Hungerford Street
5th Floor
Kolkata 700017
T +91 33 4050 8000

MUMBAI
16th Floor, Tower II
Indiabulls Finance Centre
SB Marg, Elphinstone (W)
Mumbai 400013
T +91 22 6626 2600

MUMBAI
9th Floor, Classic Pentagon
Nr Bisleri factory,
Western Express Highway
Andheri (E)
Mumbai 400099
T +91 22 6176 7800

NOIDA
Plot No. 19A, 7th Floor
Sector – 16A
Noida 201301
T +91 120 7109 001

PUNE
3rd Floor, Unit No 309 to 312
West Wing, Nyati Unitree
Nagar Road, Yerwada
Pune- 411006
T +91 20 6744 8800

For further information, please contact our subject matter experts

Ashish Gupta
E Ashish.Gupta@in.gt.com
M +91 98117 22626
T +91 124 462 8000

Siddharth Talwar
E Siddharth.Talwar@in.gt.com
M +91 98109 30906
T +91 124 462 8000

Manish Gujral
E Manish.Gujral@in.gt.com
M +91 98339 78339
T +91 22 6626 2600

For more information or for any queries, write to us at contact@in.gt.com

Follow us @GrantThorntonIN

© 2018 Grant Thornton India LLP. All rights reserved.

"Grant Thornton in India" means Grant Thornton India LLP, a member firm within Grant Thornton International Ltd, and those legal entities which are its related parties as defined by the Companies Act, 2013.

Grant Thornton India LLP is registered with limited liability with identity number AAA-7677 and has its registered office at L-41 Connaught Circus, New Delhi, 110001.

References to Grant Thornton are to Grant Thornton International Ltd (Grant Thornton International) or its member firms. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.