RBI, govt may give banks more time to switch to IndAS

With less than three months to go before the deadline, bankers believe implementing the IndAS accounting norms will be a challenge

The government and the Reserve Bank of India (RBI) may postpone the implementation of new accounting standards for banks because of the legislative changes and additional capital requirements the process would entail, according to three senior officials familiar with the matter.

Banks and non-banking financial companies are due to switch to Indian Accounting Standards (IndAS) from 1 April 2018. They currently follow Indian generally accepted accounting principles (GAAP) standards. Other corporate entities started complying with IndAS with effect from 1 April 2016.

“The implementation of IndAS for public sector banks requires an amendment to the Banking Regulation Act. The schedule in BR Act relating to financial statement disclosures needs to be changed to the IndAS format,” said one of the three officials cited above, all of whom spoke on condition of anonymity.

Section 29 of the BR Act deals with the accounts and balance sheets of public sector banks. Private sector banks are covered by the Companies Act, which is based on the new accounting standards. Due to a delay in amending the BR Act, RBI is yet to issue operational guidelines for the implementation of the new accounting standards. With less than three months to go before the deadline, bankers believe implementing the new norms will be a challenge.

On 3 January, Anshula Kant, deputy managing director and chief financial officer of State Bank of India, wrote in an article in The Economic Times that banks will require more time to transition to the new accounting norms. “Considering the volume of changes due to IndAS implementation and onerous disclosure requirements, banks will need to reassess and upgrade their policies, processes and IT systems. Capital will also be significantly impacted,” Kant wrote in the article.

Separately, the transition to IndAS is expected to see a significant jump in bad-loan provisions. “The government is unlikely to infuse more capital into public sector banks. The latest round of recapitalization was meant to strengthen banks and boost credit growth. It does not include capital for IndAS provisioning,” said the second of the three officials cited earlier.

Under the current rules, banks set aside money to cover loans that have turned bad. Under IndAS, they must make provisions after assessing the expected loss from the time a loan is originated rather than waiting for a trigger event. These norms, which are in line with international norms, the International Financial Reporting Standards, were designed to avoid credit shocks like those seen in the aftermath of the global financial crisis in 2008. On 23 June 2017, former RBI deputy governor S.S. Mundra had said the migration to IndAS is likely to increase banks’ provisioning requirement by 30%.

To prepare for the new regime, RBI asked banks to submit pro-forma IndAS financial statements starting with their results for the six months ended 30 September 2016 and three months ended 30

June 2017.In the Financial Stability Report released by RBI in June 2017, the central bank said banks had initiated the process, but more efforts are required for the switch. “The analysis of pro forma financial statements submitted by the banks revealed wide variations in underlying assumptions, leading to divergence in provisioning requirements,” it said.

The Insurance Regulatory and Development Authority of India (Irda), which had earlier decided to implement IndAS from 2018-19, has decided to defer it by two years. “It is likely that RBI will follow the Irda path and defer the implementation of IndAS starting FY20-21,” said the third of the three officials cited earlier.

RBI had agreed with the National Advisory Committee on Accounting Standards (NACAS) that banks would switch to IndAS by April 2018, said Amarjit Chopra, chairman of NACAS. NACAS advises the government on the formulation and laying down of the accounting policy and standards for adoption by firms. “We are yet to hear anything from RBI or government,” he added. RBI and the finance ministry declined to comment on the matter.

(The Mint)