RBI delays implementation of Ind-As

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Manifest Pedagogy

IND-As,IRFS,NFRA and other regulatory aspects especially in banking and public policy. These have to be studied in conjunction with issues of black money, money laundering, risks in banks and NBFCS etc. one needs to know the implications and pros and cons of regulatory changes in these sectors for both prelims and mains examinaiton.

In news

RBI defers IndAs

Placing it in the syllabus

Banking Sector Reforms in India

Static dimensions

- What is Ind-As?
- Basel Norm III
- Provisioning norms(NPA) replaced by ECL

Current dimensions

- Rising NPAs and stress in Banks
- Need for improving liquidity coverage ratio
- Need & Applicability Of Expected Credit Loss (ECL)
- Why delay in implementing Ind-As?

Content

What is Ind-As?

Indian Accounting Standards (abbreviated as **Ind-AS**) are the Accounting standards adopted by companies in India and issued under the supervision of Accounting Standards Board (ASB) which was constituted as a body in the year 1977. ASB is a committee under Institute of Chartered Accountants of India(ICAI) which consists of representatives from government department, academicians, other professional bodies .

The Ind-As are basically standards that have been h**armonised with the International Financial Reporting Standards(IFRS)** to make reporting by Indian companies more globally accessible. Since Indian companies have a far wider global reach now as compared to earlier, the need to converge reporting standards with international standards was felt, which has led to the introduction of IND AS.

The Ind AS are named and numbered in the same way as the International Financial Reporting Standards (IFRS). National Advisory Committee on Accounting Standards (NACAS) recommend these standards to the Ministry of Corporate Affairs (MCA).

Basel Norm III

The Basel Committee on Banking Supervision published the first version of Basel III in late 2009, giving banks approximately three years to satisfy all requirements. It is an Basel III is an international regulatory accord that introduced a set of reforms designed to improve the regulation, supervision and risk management within the banking sector. banks are required to maintain proper leverage ratios and meet certain minimum capital requirements in response to credit crisis.

Provisioning norms

It is a mechanism designed by RBI to deal with rising NPAs and

it is part of RBI's prudential regulation norm.

Under this banks have to set aside or provide funds to a prescribed percentage of their bad assets. The percentage of bad asset that has to be 'provided for' is called provisioning coverage ratio. The provisioning coverage ratio is the percentage of bad assets that the bank has to provide for (keep money) from their own funds –most probably profit.

For instance, if the provisioning coverage ratio is 70% for a particular category of bad loans, banks have to set aside funds equivalent to 70% those bad assets out of their profits.

Presently RBI mandates incured loss model, however the provisions under Basel norms III are not enough even to cover 70% of bad loans

Need for improving liquidity coverage ratio

While public sector banks (PSBs) have substantially ramped up their loan-loss provisions and strengthened balance sheets in the first nine months of the current financial year, only 6 out of 21 PSBs, have crossed the 'desirable' level of 70 per cent provision coverage ratio (PCR) as of December-end 2018.

Need & Applicability Of Expected Credit Loss (ECL):

Past experiences of financial crisis has revealed, the need of being proactive in reckoning the potential deterioration in the credit quality of the financial assets. Further adequate disclosures of increase in credit risk will facilitate prudent decision making and initiate needed corrective measures.

Why delay in implementing Ind- As

- The Reserve Bank of India (RBI) has deferred the implementation of the new accounting norms, Ind AS, indefinitely, as necessary amendments to the relevant law are yet to be made.

- While the original plan was to implement these accounting norms by April 1, 2018, it had to be deferred by a year due to pending legislative amendments to the Banking Regulation Act, 1949, as also the level of preparedness of many banks.