

#### 4. IMPACT OF IMPLEMENTATION OF IND AS 109 (FINANCIAL INSTRUMENTS) ON BANKS AND NBFCs IN INDIA WITH SPECIAL FOCUS ON IMPAIRMENT PROVISIONS

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##### Abstract

*The move towards adoption of Ind AS 109 – Financial Instruments (IndAS) is a step in the right direction for India, as it looks for wider acceptance in the global markets. IndAS norms have far-reaching impact on not only the bottom-line of banks and NBFCs but also the processes and the business model itself. In particular, implementation of IndAS by banks and NBFCs would require a drastic, but much required change in their loan books, right from sourcing of customers, collection processes to the loan loss provisioning. Taking into account the unpreparedness of banks in India to migrate to IndAS, the Reserve Bank of India, on April 5, 2018, deferred the implementation of IndAS by banks by a year, i.e. to FY 2019-20. NBFCs are, however, required to implement IndAS in the current year itself i.e., FY19. The present study focusses on the impact of the impairment provisions contained in IndAS on banks and NBFCs in India. Comments were solicited from top-ranked officials of various banks and NBFCs on the consequences on their bottom line and also on the additional capital requirement, if any.*

**Keywords:** Accounting Standards, IFRS, Impairment provisions, Expected credit loss

##### Introduction

In India, the process of convergence of Accounting Standards to International Financial Reporting Standards (IFRS) began in the year 2006 with the setting up of a task force by the Institute of Chartered Accountants of India (ICAI) to deliberate on adoption of IFRS. However, considering the legal, regulatory and other differences in India, it was decided to 'converge' to IFRS instead of 'adopt' IFRS (**RBI report, 2015**). The accounting standards in India, as converged with IFRS, are referred to as IndAS (Indian Accounting Standards).

In 2015, the Ministry of Corporate Affairs (MCA) prescribed the implementation of IndAS in a phased manner in India. Accordingly, an implementation schedule was set up for companies, based on their net worth and listing status, starting from the year 2016-17.