INTERNATIONAL FINANCIAL REPORTING SYSTEM-
A CASE STUDY OF ICICI BANK‖

DR SUPRAVA SAHU,Assistant Professor, P.G. Dept of Commerce, Ravenshaw University

ABSTRACT

IFRS have been recognized as the global financial reporting standards. At present, it has been adopted by more than 113 countries worldwide. In India, The Ministry of Corporate Affairs (MCA) has recently issued and IFRS convergence roadmap that is applicable to all companies excluding banking and insurance companies. IFRS are used in many parts of the world, including the European Union, India, Hong Kong, Australia, Malaysia, Pakistan, GCC countries, Russia, South Africa, Singapore and Turkey. As of 27 August 2008, more than 113 countries around the world, including all of Europe, currently require or permit IFRS reporting. This paper attempts to discuss the issues and impact of IFRS on the Indian Banking Industry. This paper also analyse the net profit margin, liquidity ratio, profit before tax, profit after tax of ICICI Bank.

KEYWORDS: *global phenomenon, standard, statement, enforcement, banking*

INTRODUCTION

In a world where most of the country using International Financial Reporting Standards (IFRS), the most appropriate process is to adopt IFRS immediately. IFRS have been recognized as the global financial reporting standards. At present, it has been adopted by more than 113 countries worldwide. In India, The Ministry of Corporate Affairs (MCA) has recently issued and IFRS convergence roadmap that is applicable to all companies excluding banking and insurance companies. According to the roadmap, companies need to reconvert their opening Balance Sheet in accordance with the IFRS in phased manner. The first phase shall commence from 1^{st} April, 2011. However the convergences of International Financial Reporting Standards from the Indian Accounting Standards involved a lot of issues, such as industry implications, reporting implications, and amendment in various statutory laws and so on.

The finalized roadmap for the convergence of Indian Accounting Standards with the International Financial Reporting Standards (IFRS) with respect to banking companies requires all scheduled commercial banks to convert their opening balance sheets as of April 1, 2011. RBI has emphasized to banks that they need to gear up to adopt the new standards. Practical experience from other countries has proved that transition to IFRS can take 18-24 months to fully embed and implement.

OBJECTIVE

- To discuss the impact of IFRS on the Indain Banking Sector
- To analyse the profitability and liquidity ratio of ICICI Bank.

METHODOLOGY

Data was collected from secondary sources. Secondary sources on the other hand are sources that are based upon the data that was collected from various articles, journals.

Secondary sources take the role of analyzing, explaining, and combining the information from the primary sources with additional information.

International Financial Reporting Standards (**IFRS**) are principles-based standards, interpretations and the framework (1989) adopted by the International Accounting Standards Board (IASB).

Many of the standards forming part of IFRS are known by the older name of **International Accounting Standards** (IAS). IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On April 1, 2001, the new IASB took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards IFRS.

IFRS are considered a "principles based" set of standards in that they establish broad rules as well as dictating specific treatments.

International Financial Reporting Standards comprise:

- *International Financial Reporting Standards (IFRS)*—standards issued after 2001
- *International Accounting Standards (IAS)*—standards issued before 2001
- *StAnding Interpretations Committee (SIC)*—issued before 2001
- *Conceptual Framework for the Preparation and Presentation of Financial Statements (2010)*

IFRS : A GLOBAL PHENOMENON

ENFORCEMENT ISSUES

One of the critical elements in the implementation of IFRS is the rigorous enforcement of standards. The full benefits of a global set of financial reporting standards such as IFRS will be realized only when these standards are consistently enforced. Thus, IFRS consist of only one element of the financial reporting infrastructure. The institutions responsible for enforcing IFRS need to realize that, as a result of the growing globalization of financial markets, their enforcement efforts often protect both domestic and international investors.

The responsibility of enforcing IFRS rests with a number of parties. Institutions such as securities exchange commissions, banking and insurance supervisory authorities, stock exchanges and capital market authorities play important roles in enforcing financial reporting requirements like IFRS.

IMPACT ON BANKING INDUSTRY

- *Compliances Burden*

Banks and capital markets institutions have a number of local, national and international regulatory requirements that can trip up even the most sophisticated enterprise. All the policies regarding valuation of loans and advances, capital adequacy, net worth etc are measured as per the rules prescribed by the Reserve Bank of India. Besides the compliances of the rules and regulations prescribed by the Reserve bank of India, the compliances of other laws shall also affect the Indian Banking industry.

- *Tax Reporting Practices*

The tax considerations associated with a conversion to IFRS, like the other aspects of a conversion, are complex.

For banks, tax accounting differences are of great significance. However, the effects of a conversion go beyond these complex tax matters and also include matters such as pre-tax accounting changes on tax methods, global planning strategies, and tax information systems. If a conversion to IFRS is approached properly and well in advance of conversion. it has the potential to strengthen an entity's tax function by providing an opportunity for a detailed review of tax matters and processes. For differences that impact pre-tax accounting methods banks will need to consider the following questions:

i. Is the new financial reporting standard a permissible tax accounting method under Income Tax Act, 1961?

ii. Is the new book method is allowed under Income Tax Act, 1961?

iii. Is it necessary to report changes in methods of accounting after conversion to IFRS?

iv. Will there be modifications in the computation of permanent and temporary differences of Deferred Tax?

v. Is the loss arises due to fair valuation allowed as expenditures under Income Tax Act, 1961?

- *Information Technology*

IFRS is expected to have wide-ranging effects at different levels of the IT systems architecture. The realignment of the banking information systems will pose a real challenge for their IT department (along with the rest of the organization). Virtually all applications and interfaces in the system architecture can be affected, from the upstream or source of data to the farthest end of the reporting tools. The information technology department of the bank will need to take into account external factors such as local and international regulations, financial consolidation of subsidiaries, stock markets, and external auditors.

- *Financial Instruments*

Financial Instruments: Recognition and Measurement is one of the typical standards for those organizations which use financial instruments in their financial statements especially banking industry. It shall have an impact over the income of the industry. To illustrate the forthcoming key standard IFRS 9, Financial Instruments: Classification and Measurement prescribes two options for the classification of financial assets, i.e. amortized cost or fair value. Amortized cost classification is only permitted, if two conditions are met. First, the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flow. Second, the contractual terms of the financial asset gives rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. When there is more than one infrequent number of sales in a portfolio held at amortized cost, the entire portfolio would have to be accounted for at fair value.

- *Human Resources*

IFRS involves much more than reorganizing the chart of accounts. It represents a change that cascades well beyond the finance department. Consequently, human resources issues may be a major concern. A conversion project will place increase in demands of the trained and professional personnel, which may come at a time when they are able to handle it. It shall enhance the wages cost as percentage of the total expenses for the bank. To illustrate, State Bank of India & its associates has 17.03 percent wages of their total expenses in financial year 2009 - 2010 as compared to 15.06 percent and 15.89 percent in 2008 – 2009 and 2007 – 2008. This cost shall further increase after the appointment of the trained and professional staff for the implementation of the IFRS in the bank.

- *Impairment in Advances*

IFRS recognize the impairment model for the assets of the organization. However, the banking industry, at present recognizes the provisioning and writes off method for the valuation of its advances as per the prudential norms of Reserve bank of India. This is the only guidelines that the Indian banking industry is required to comply. The auditor is required to provide comment on the compliances of these guidelines. The bank is required to examine each and every investment including advances on specific basis and shall require to value them as per the method of present value after adopting the effective rate of interest for discounting. It is a tough work for the banking industry. However the IFRS specify the suitability of method for measurement of present value for group borrower and individual borrower. It specified the collective method and individual method for measurement of impairment of the assets of the organization.

- *Investments*

As per the existing Indian Accounting Standard – 13 (AS – 13) on Accounting for Investments, the Investments of the organization shall be valued on lower of cost or fair value. The calculation of fair value is simple or in other words the value, after deduction of expenditure for sale of such investments, at which it may sold in the open market. However under the IFRS, the measurement of fair value shall be different from the existing method. In India, the banks are required to maintain the Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR). The banks maintain these ratios by investing in the Governments securities. Hence, these securities cover a major part of the investments of the banks in India.

- *Derivatives and Hedge Accounting*

Under the existing Accounting Standards – 30 (AS – 30) on Financial Instruments: Recognition and Measurement. The derivatives are valued at the fair value in the Balance Sheet after making provision for difference in Income Statement for the fair value of such derivatives. The present standards do not require the documents for measurement for fair value for disclosures in the Balance Sheet and Income Statement. However, under the IFRS, all such documents for measurement of fair value must be documented. Besides the documents, hedge effectiveness testing and ineffectiveness testing are also required for measurement of fair value. However if hedge relationship for the qualifying cash flows can be established, fair value measurement need not be applied to such derivatives. It shall have direct impact over the re measurement of the existing derivatives and hedging instruments.

- *Consolidation of financial statements*

As per the Accounting Standard – 23 (AS – 23) on consolidation of Financial Statement of entities, the consolidation of financial statements are purely based upon the ownership and control over the another organization. As per the existing Accounting Standards, consolidation is not mandatory for all organization.

However, as per IFRS, the consolidation is mandatory for all the organization. The measurement and test of ownership shall also be change in the IFRS. It has covered the potential voting rights other than the actual stakeholders. The potential voting rights includes all those whose debts or shares are required to be converted in to equity capital of the company. Indian industries are not practicing any such type of inclusions for examining the applicability of standards on consolidation of financial statements.

CASE STUDY : ICICI BANK

COMPANY PROFILE

ICICI Bank (formerly Industrial Credit and Investment Corporation of India)is India's largest private sector bank in market capitalization and second largest overall in terms of assets.

1955 The World Bank, the Government of India and representatives of Indian industry formed ICICI Limited as a development finance institution to provide medium-term and long-term project financing to Indian businesses.

ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialized subsidiaries and affiliates in the areas of investment banking, life and non-life insurance, venture capital and asset management

CORPORATE BANKING

The corporate banking strategy is based on providing comprehensive and customised financial solutions to ICICI corporate customers. They offer a comprehensive suite of corporate banking products including rupee and foreign currency debt, working capital credit, structured financing, loan syndication and commercial banking products and services. ICICI corporate and investment banking franchise is built around a core relationship team that has strong relationships with almost all of the country's corporate houses. The relationship team is product agnostic and is responsible for managing banking relationships with clients. They have also put in place product specific teams with a view to focus on designing financial solutions for clients spread across structured finance, project finance, loan syndication and markets. The Structured Finance Group is responsible for working with the relationship team in India and ICICI international subsidiaries and branches for structuring and execution of investment banking mandates and other transactions.

ICICI have enhanced ICICI client servicing capability by the effective use of ―Mega Branches‖ spread across all major commercial centres across the country catering to specialised commercial banking needs of clients. These branches have highly cohesive and dedicated customer focused transaction teams, led by senior branch

heads, to service customers and provide a better transactional experience to the client. An efficient central operations team complements the service delivery capability.

The relationship team also works with the Markets Group to assist customer in devising and executing risk management strategies to address foreign currency, interest rate and liquidity risks. The loan syndication franchise enables us to structure, underwrite and syndicate rupee and foreign currency debt with Indian and offshore investors.

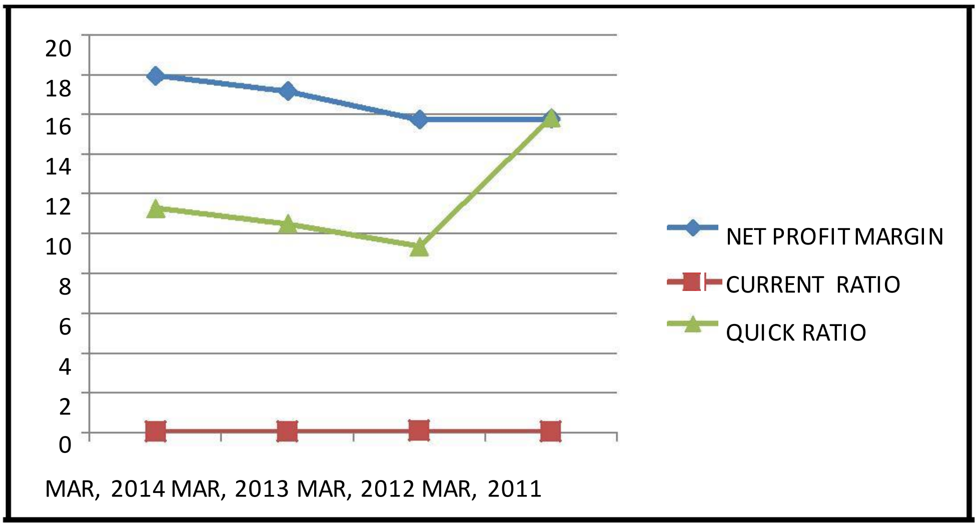
FINANCIAL ANALYSIS AND INTERPRETATION

	MAR, 2014	MAR, 2013	MAR, 2012	MAR, 2011
NET PROFIT MARGIN	17.96	17.19	15.75	15.79
CURRENT RATIO	0.09	0.09	0.12	0.07
QUICK RATIO	11.31	10.53	9.37	15.86

	MAR, 2014	MAR, 2013	MAR, 2012	MAR, 2011
EPS	84.95	72.17	56.09	44.73

	MAR, 2014	MAR, 2013	MAR, 2012	MAR, 2011
PROFIT BEFORE TAX	22.56	29.46	30.21	26.48
PROFIT AFTER TAX	17.84	28.77	25.51	27.99

INTERPRETATION:

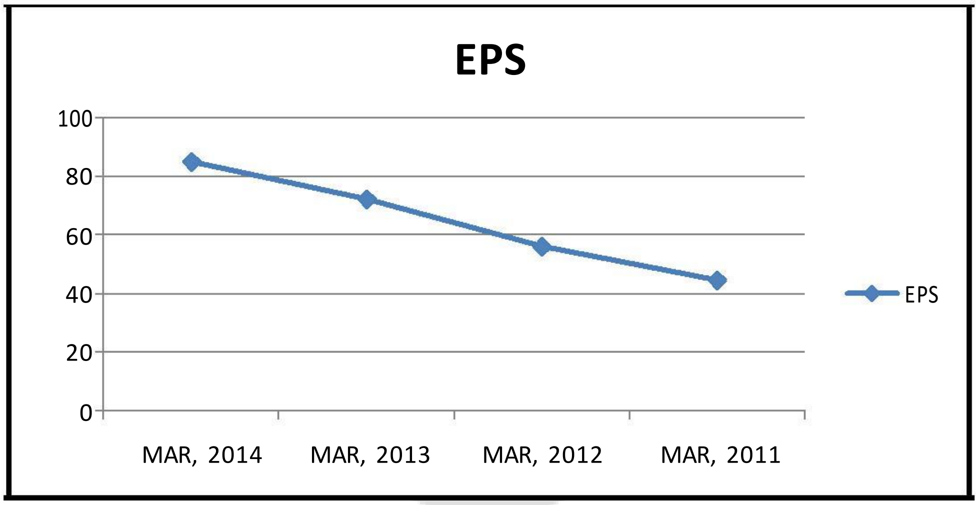


Net profit is a measure of the fundamental profitability of the venture. It is the revenues of the activity less the costs of the activity. Net profit margin is an indicator of how efficient a company is and how well it controls its costs. The higher the margin is, the more effective the company is in converting revenue into actual profit. Net profit margin is mostly used to compare company's results over time.

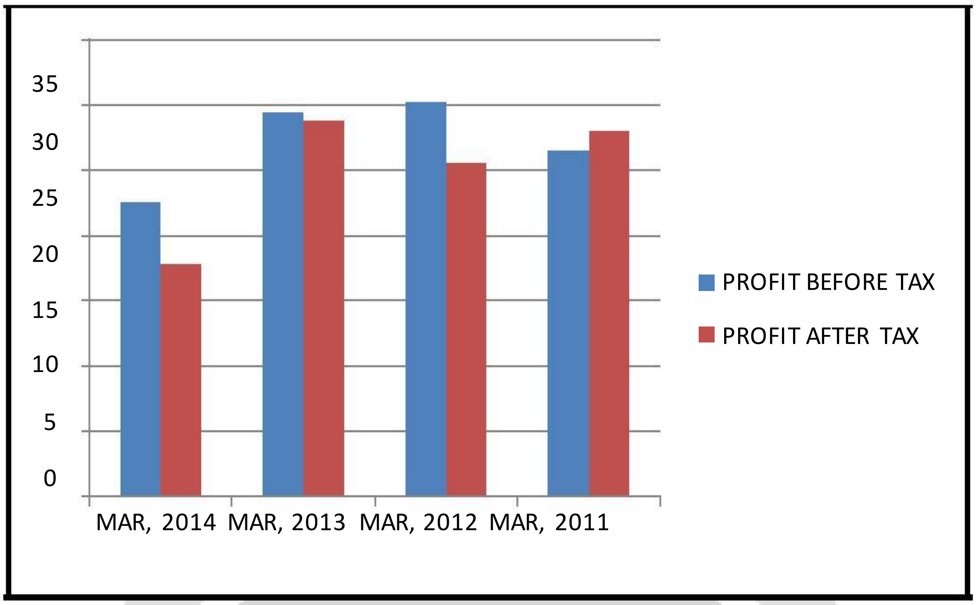
Current ratio gives an idea of company's operating efficiency. A high ratio indicates "safe" liquidity, but also it can be a signal that the company has problems getting paid on its receivable or have long inventory turnover, both symptoms that the company may not be efficiently using its current assets.

If quick ratio is higher, company may keep too much cash on hand or have a problem collecting its accounts receivable. Higher quick ratio is needed when the company has difficulty borrowing on short-term notes. A quick ratio higher than 1:1 indicates that the business can meet its current financial obligations with the available quick funds on hand. A quick ratio lower than 1:1 may indicate that the company relies too much on inventory or other assets to pay its short-term liabilities.

Here, the net profit margin has increased which indicates that the company has well controlled its costs in 2014 than in 2013. The current ratio has maintained its consistency over last 5 years whereas the quick ratio is not consistent over the years.



Earnings per share is also a calculation that shows how profitable a company is on a shareholder basis. So a larger company's profits per share can be compared to smaller company's profits per share. Obviously, this calculation is heavily influenced on how many shares are outstanding. Thus, a larger company will have to split its earning amongst many more shares of stock compared to a smaller company. Here, the company has shown an increase in the EPS over the years.



PBT combines all of the company's profits before tax, including operating, non-operating, continuing operations and non-continuing operations. PBT exists because tax expense is constantly changing and taking it out helps to give an investor a good idea of changes in a company's profits or earnings from year to year. The amount of profit can increase, but that doesn't mean the company's profit margin is improving. For example, a company's sales could increase, but if costs also rise, that leads to a lower profit margin than what the company had when it had lower profits. This is an indication that the company needs to better control its costs.

Here the difference between the PAT and PBT may be due to tax.

CONCLUSION

It was always clear that a first-time adoption standard driven by the desire to avoid undue cost and effort would have to include exemptions that would permit first-time adopters to apply IFRS in a practical manner. In the long run only the effect of the business combinations and 'fair value or revaluation as deemed cost' exemptions will be enduring. However, even the impact of those exemptions will be relatively insignificant compared with, for example, the huge effect an acquisition has on the comparability of financial statements from one period to another.