Report of the Working Group on Implementation of Ind AS by Banks in India

Reserve Bank of India

2015

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RESERVE BANK OF INDIA
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Shri R Gandhi
Deputy Governor
Reserve Bank of India
Central Office Building
Shahid Bhagat Singh Road
Mumbai 400 001

Dear Sir,

Report of the Working Group on the Implementation of Ind AS by banks in India

I have great pleasure in submitting the Report of the Working Group on the Implementation of Ind AS by banks in India. On behalf of the members of the Working Group, colleagues and on my own behalf, I convey my sincere thanks for entrusting us with this responsibility.

Yours faithfully

(Sudarshan Sen)
Chairperson

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1. Introduction and Approach

1.1 India embarked on its journey of convergence to International Financial Reporting Standards (IFRS) in 2006 with the Institute of Chartered Accountants of India (ICAI) setting up a Task Force to consider the adoption of IFRS. In 2007, this Task Force published a comprehensive Concept Paper that recommended a convergence strategy rather than full fledged adoption, taking into consideration legal, regulatory and conceptual differences as well as existing business practices in India. The ICAI suggested that IFRS converged accounting standards should be adopted for public interest entities such as listed entities, banks and insurance entities and large-sized entities from the accounting periods beginning on or after April 1, 2011.

1.2 The convergence process received a substantial fillip with India making a commitment to converge the national accounting standards with IFRS at the G20 summit in Pittsburgh in 2009. As part of this commitment, the Ministry of Corporate Affairs (MCA), Government of India (GoI), released a road map in January 2010 which entailed IFRS convergence in a phased manner commencing from April 1, 2011 onwards for corporates, with the banking industry converging later from April 1, 2013 onwards. The delayed migration to IFRS converged standards by the banking industry, was on account of the anticipated changes in the global standards for financial instruments by June 2011 as the International Accounting Standards Board (IASB) had embarked on a joint project with the Financial Accounting Standards Board (FASB) of the US to replace International Accounting Standard (IAS) 39: *'Financial Instruments- Recognition and Measurement'* with IFRS 9 - *Financial Instruments*.

1.3 In order to facilitate a smooth convergence and address implementation issues for the Indian banking system, the Reserve Bank of India(RBI) set up a Working Group in July 2010, under the Chairmanship of Shri P R Ravi Mohan, the then Chief General Manager of erstwhile Department of Banking Operations and Development (DBOD), comprising professionals with experience in IFRS implementation, representatives from the Indian Banks' Association (IBA) and ICAI as well as officers from various regulatory, supervisory and market departments of the RBI.

1.4 The MCA published 35 Ind AS on its website in February 2011. However, it did not notify the implementation date and consequently, entities which were supposed to converge to IFRS from April 1, 2011, April 1, 2012 and April 1, 2013 as per the 2010 roadmap, issued by MCA, did not migrate to Ind AS. Further, globally, due to the lack of agreement between the IASB and the FASB, the IFRS 9 project which was scheduled for completion by June 30, 2011 was substantially delayed. The lack of clarity regarding the implementation of Ind AS and ,more importantly, the absence of a finalised version of IFRS 9 by the IASB, severely impeded efforts by the Indian banking industry to move towards IFRS converged accounting. Consequently, the RBI Working Group submitted an interim report in November 2012 based on IFRS 9 as finalised up to July 2012 and it was decided to monitor further developments on the matter before proceeding with the implementation of Ind AS.

1.5 The Finance Minister in his speech on the Union Budget for 2014-2015, while expressing the urgent need for convergence of extant accounting standards with IFRS, announced the implementation of Ind AS by Indian companies voluntarily from the financial year (FY) 2015-16 and mandatorily from FY 2016-17, stating that the regulators would separately notify the date of implementation of Ind AS for banks, insurance companies, etc. In July 2014, the International Accounting Standards Board (IASB) released IFRS 9: Financial Instruments, thus paving the way for the implementation of Ind AS by the Indian Banking System.

1.6 It was in this context that the RBI constituted a Working Group on the Implementation of Ind AS by banks in India under the Chairmanship of the Shri. Sudarshan Sen, Chief General Manager-in-Charge, Department of Banking Regulation (DBR, formerly DBOD), to build upon the work already done by the previous Working Group. Accordingly, the terms of reference of the Working Group were as under:

(a) Review the recommendations in the Report of the Working Group to Address Implementation Issues in IFRS (Chairman: Shri P R Ravi Mohan) and update the same in light of revisions in IFRS/ Ind AS and the finalisation of IFRS 9: Financial Instruments.

(b) Address incremental issues arising from the implementation of Ind AS in the banking sector.

1.7 The Working Group adopted a consultative approach and outreach meetings were held with bankers to understand their issues and apprehensions with regard to Ind AS, especially in the context of current accounting practices. The Working Group also reviewed several extant RBI instructions and guidelines as well as Ind AS notified[1] by the MCA, GoI to identify potential issues with regard to Ind AS implementation. The Working Group has structured its recommendations into the following key areas with a focus on financial instruments.

(i) Classification and Measurement of Financial Assets
(ii) Classification and Measurement of Financial Liabilities
(iii) Hedge Accounting and Derivatives
(iv) Fair Value Measurement
(v) Impairment of Financial Assets
(vi) Presentation of Financial Statements and Disclosure
(vii) Derecognition, Consolidation and Other Residuary Issues

The Working Group also devised formats for financial statements of banks under Ind AS and application guidance thereon which are covered in Annex I, II and III. An instrument wise comparison of valuation requirements under existing GAAP and Ind AS along with recommendations thereon are

[1] The MCA, GoI vide its notification dated February 16, 2015 notified the Companies Accounting (Indian Accounting Standards) Rules, 2015. The MCA has not notified the Ind AS corresponding to IAS 39, thereby providing for a direct transition to the IFRS 9 converged Ind AS 109, even before the mandatory application requirements of IFRS 9 (i.e. for accounting periods commencing on or after January 1, 2018).

covered in Annex IV. Annex V summarises the RBI instructions which need review in light of the issues considered in the report, Annex VI summarises the areas where educational material could be issued by the ICAI and Annex VII summarises the legislative amendments which may be required.

1.8 It may be noted that the recommendations arrived in this report are based on the collective views of the members of the Working Group built upon the literature available at the time of finalisation of report. These views are not intended to be authoritative interpretations of accounting standards and are subject to modification by accounting standard setters and regulatory bodies in the future.

Acknowledgements

1.9 The Working Group wishes to place on record its gratitude to Shri R Gandhi, Deputy Governor, and Shri N S Vishwanthan, Executive Director Reserve Bank of India, for their encouragement, support and guidance.

1.10 The Working Group acknowledges the contribution of the Report of the previous Working Group chaired by Shri P R Ravi Mohan in the finalisation of this Report. The previous Working Group benefited from the contributions of the representatives of Axis Bank, Bank of Baroda, Bank of India, Canara Bank, Catholic Syrian Bank, Corporation Bank, Deloitte Haskins & Sells, DFK India, Ernst & Young Private Limited, Grant Thornton India LLP, HDFC Bank, ICAI, ICICI Bank, IDBI Bank Limited, Indian Bank, Indian Banks' Association, erstwhile ING Vysya Bank, Kotak Mahindra Bank, KPMG, M P Chitale & Co., Price Waterhouse and State Bank of India as well as staff from regulatory, supervisory and market departments of RBI.

1.11 The Working Group expresses its gratitude to Shri Manish Iyer, Deputy Technical Director, ICAI, Ms. Anagha Thatte, Partner, M P Chitale & Co., Shri Vivek Capoor, Senior Vice President, HDFC Bank and Ms. Trapti Mehra, Chief Manager, State Bank of India for their insights and valuable contribution to the deliberations of the Working Group. The Working Group acknowledges the efforts of and is grateful to Shri A K Choudhary, General

Manager (GM), DBR for his valuable inputs and suggestions in drafting the chapter on Impairment. The Working Group is thankful to Dr. K Balu, GM, Department of Banking Supervision (DBS), Shri Navin Nambiar, Deputy General Manager (DGM), DBS, Smt. Sindhu Pancholy, DGM, Department of Non-Banking Regulation (DNBR), Smt. Peeyosh Nag, Assistant General Manager (AGM),DNBR and Shri B Nethaji, AGM, DBR for their participation in the meetings and their suggestions on the various aspects of the Report. The Working Group also thanks the representatives from Axis Bank, Bank of Baroda, Citibank, Kotak Mahindra Bank, HDFC Bank, HSBC, ICICI Bank, NABARD, Punjab National Bank, Standard Chartered Bank and State Bank of India for their participation in the outreach meetings with bankers, which gave an insight into the possible implementation issues. The Working Group places on record its appreciation for the support received from Shri Amarvir Saran Das, AGM, DBR for providing valuable inputs, coordinating and participating in the meetings and outreach events, and overall drafting and finalisation of the Report. Smt. Radhee Krishna, Manager and Shri Parag S Gawade, Assistant played a vital role in drafting the report, and providing support respectively.

2. Classification and Measurement of Financial Assets

2.1 The Working Group reviewed the requirements of Ind AS 109 with regard to the classification and measurement of financial assets which are similar to the requirements laid down in IFRS 9 issued by the IASB. The Working Group also took cognizance of the fact that there were a number of RBI circulars containing guidance and instructions on accounting matters which may not necessarily conform to the requirements of Ind AS 109. Therefore, a review of the important RBI circulars was carried out to identify areas requiring attention.

2.2 The Working Group also considered the unique features of the Indian banking sector where a significant portion of the sector had historically adopted an *'originate and hold'* business model with respect to their lending portfolios. Considering the criticality of the topic and the largely principle based requirements in Ind AS 109 with regard to the classification and measurement of financial assets as well as the significant impact of the provisions of the standard on the financial statement position and performance of an entity, an 'outreach' approach was adopted to gain feedback from bankers in relevant departments (credit, product development, structured finance, treasury etc.) regarding the following specific areas:

(a) Contractual cash flow characteristics of financial assets

(b) Classification of the financial assets vis-à-vis the business model test

(c) Implementation challenges, especially with regard to Effective Interest Rate ('EIR').

2.3 Broadly, the key issues identified by the Working Group, are divided into the following areas.

(i) Classification

(ii) Recognition

(iii) Measurement

(iv) Reclassification

(v) First time adoption

2.4 Classification of financial assets

2.4.1 After, initial recognition, as per Ind AS 109, financial assets may be classified as subsequently measured at (a) amortised cost, (b) fair value through profit and loss (FVTPL) or (c) fair value through other comprehensive income (FVOCI).

2.4.2 Ind AS 109 allows subsequent measurement at amortised cost for debt instruments only if they satisfy both of the following conditions.

(a) *Business Model Test:* The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.

(b) *Characteristics of Cash Flow Test:* The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin

2.4.3 Financial Assets shall be subsequently measured at FVOCI if both the following conditions are satisfied viz.

(a) *Business Model Test*: The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

(b) *Characteristics of Cash Flow Test:* Same requirements as sub-paragraph (b) of paragraph 2.4.2(b) above

2.4.4 A financial asset shall be measured at FVTPL, unless it is measured at amortised cost or FVOCI in accordance with conditions specified in paragraphs 2.4.2 and 2.4.3 above. However, even if the above conditions are met, an entity has the option to irrevocably designate, at initial recognition, a financial asset as measured at FVTPL, if doing so removes or significantly reduces a measurement or recognition inconsistency (referred to as an *'accounting mismatch'*) that would arise from measuring assets or liabilities or recognising the gains/losses on them on different bases.

2.4.5 An entity's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The entity's business model does not depend on management's intention for an individual instrument. Accordingly, this condition is not intended to be an instrument by instrument approach to classification and does not depend upon management's intentions for an individual instrument, but should be determined on a higher level of aggregation. It is typically observable through activities that the entity undertakes to achieve the objectives of the business model under which the financial asset is acquired. Such evidence could include how the performance of the business model of the assets held within that business model are reported to the key management personnel (KMP). The objective of the business model is determined by key management personnel. However, an entity's business model for managing financial assets is a matter of fact and not merely an assertion.

2.4.6 In terms of Ind AS 109, investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are required to be classified at FVTPL. For other equity investments, an entity has the ability to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present subsequent changes in fair value in OCI rather than profit or loss. If this election is made, all fair value changes, excluding dividends that are a return on investment, will be included in OCI. There is no recycling of amounts from OCI to profit and loss (for example, on sale of an equity investment), nor are there any impairment requirements. However, the entity might transfer the cumulative gain or loss within equity on sale/ disposal of the investment.

2.4.7 Interests in subsidiaries, associates and joint ventures are accounted for in accordance with Ind AS110: *Consolidated Financial Statements,* Ind AS 27:

Separate Financial Statements, Ind AS 28: *Investments in Associates and Joint Ventures* or Ind AS 111: *Joint Arrangements.* In some cases, Ind AS110, Ind AS 27 or Ind AS 28 require or permit an entity to account for an interest in a subsidiary, associate or joint venture in accordance with some or all of the requirements of Ind AS 109.

2.4.8 Derivatives (excluding those that are part of hedging relationships) are measured at FVTPL. In comparison to IAS 39, there is no bifurcation of embedded derivatives for financial assets recorded at Amortized Cost or FVOCI.

2.4.9 Issues pertaining to classification of financial assets and the recommendations of the Working Group on the same are enumerated in the table below:

Sr. No.	Issue	Recommendation
1.	*Difference from present RBI classification* Ind AS 109 provides for classification of financial assets (debt instruments) as subsequently measured at Amortised Cost or FVOCI or FVTPL. However, the classification categories presently prescribed by RBI viz. HTM, AFS and HFT are different from those under Ind AS (IFRS).	RBI would need to suitably align/withdraw the extant instructions on classification of investment portfolios as outlined in the Master Circular on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks dated July 1, 2015. If the RBI decides to amend the extant instructions, key areas requiring attention are as follows. (i) The Ind AS 109 criteria and approach for classification of financial assets into three classifications viz. Amortized cost, FVOCI or FVTPL) are entirely different from those prescribed by the aforementioned Master Circular of RBI. (ii) Debt Securities/loans and advances can be classified at Amortised Cost or FVOCI only if both the conditions (in paragraph 2.4.2 and

Sr. No.	Issue	Recommendation
		2.4.3 discussed above) are met. (iii) With respect to investments in subsidiaries, associates and joint ventures, Ind AS 27 allows an entity to account for such investments, in the separate financial statements, either at cost or in accordance with Ind AS 109. In terms of Ind AS 109, all 'Equity' instruments (whether quoted or unquoted) have to be classified as FVTPL. However, an irrevocable election at initial recognition on an instrument basis may be made to present in the OCI changes in fair value of an investment in equity instrument that would otherwise be measured at FVTPL. On the other hand extant RBI instructions provide for classification of investment in equity of subsidiaries and joint ventures under HTM. In order to address regulatory concerns regarding fair valuation of such investments as well as promote uniformity in practice across the banking industry, RBI may consider limiting the option provided in Ind AS 27 so that investments in subsidiaries, associates or joint ventures are accounted for at cost.
2.	*Determining the business model* One of the key determinants for classification into Amortised Cost or FVOCI category is the business model test as brought out in section 2.4 of this report. The application guidance to Ind AS 109 (paragraphs B 4.1.1 to B 4.1.26) provides guidance on how to apply this condition. The standard requires an entity to classify financial assets as subsequently	As per the provisions of Ind AS 109 the objectives of the business model are determined by an entity's key management personnel (KMP) as defined in Ind AS 24 *Related Party Disclosures*. On application of Ind AS 109, banks would be required to ensure that duly approved, appropriate policies and processes are in place with regard to their business models as

Sr. No.	Issue	Recommendation
	measured at Amortised Cost or FVOCI or FVTPL on the basis of the entity's business model for managing the financial assets. An entity assesses whether its financial assets meet this condition on the basis of the objective of the business model as determined by the entity's key management personnel (KMP) as defined in Ind AS 24. What would be the primary basis to evidence/ demonstrate a business model?	determined by their KMP.
3.	*Splitting a financial instrument into two categories* Is it possible that a single financial instrument may have some portion classified as amortized cost and the remaining FVOCI or FVTPL category?	There may be situations where a single financial instrument may have to be split up into two separate classifications. For example, a bank which originates a large term loan, so that it holds a portion to maturity, but sells/ sub-participates a part of the loan to other banks. In such cases, if it is assessed that a loan will in part be sold or sub-participated (which may be evident from the bank's internal policy documents e.g.. Credit mandate/approval or historical behaviour), the question arises whether a single financial asset, can be classified into two separate business models – one whose objective is to manage the loan with the intention to sell and the other whose objective is hold the loan to collect its contractual cash flows. As it is already common under IAS 39 for loans to be classified in part as Held for Trading (HFT) or Available for Sale (AFS) and in part as Loans and Receivables (measured at amortised cost), it may be likely that this practice is valid

Sr. No.	Issue	Recommendation
		under Ind AS 109 as well, if the parts are being managed under different business models right from initial recognition. The ICAI may consider this aspect in application guidance/ educational material for Ind AS 109.
4.	*Sale of assets from Amortised Cost category* (a) Is it possible to sell some financial assets held under Amortised Cost category before maturity without contradicting the business model test?	(a) A reading of Ind AS 109 suggests that some sales of financial assets before contractual maturity are possible and permitted without contradicting the objective of the business model. The application guidance (paragraph B 4.1.3) to Ind AS 109 states that '*although the objective of an entity's business model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity'*. Further, the application guidance (paragraph B 4.1.2C) to Ind AS 109 states '*it is necessary to consider the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity*'. *However, sales in themselves do not determine the business model and therefore cannot be considered in isolation. Instead, information about past sales and expectations about future sales provide evidence related to how the entity's stated objective for managing the financial assets is achieved*, *and, specifically, how cash flows are realised'*. Therefore, the application guidance indicates the possibility of sale of financial assets before their contractual maturities without violating the objectives of the business model test. It also gives some examples of

Sr. No.	Issue	Recommendation
		situations where such sales are acceptable such as: (i) sale of the financial asset when there is an increase in assets' credit risk or to manage credit concentration risk. Selling a financial asset because it no longer meets the credit criteria specified in the entity's documented investment policy is an example of a sale that has occurred due to an increase in credit risk; (ii) sales made close to the maturity of the financial assets and the proceeds from the sales approximate the collection of the remaining contractual cash flows; or (iii) sales in 'stress case' scenario (e.g., a run on the bank's deposits).
	(b) Presently, as per extant RBI instructions, one-time transfer is permitted from/to HTM category with the approval of Board of Directors at the beginning of the year. Further, in terms of RBI circular DBOD.BP.BC.34/21.04.141/2010-11 dated August 6, 2010 on *'Sale of Investments held under Held to Maturity (HTM) Category'* if the value of sales and transfers of securities to / from HTM category exceeds 5 per cent of the book value of investments held in HTM category at the beginning of the year, bank should disclose the market value of the investments held in the HTM category and indicate the excess of book value over market value for which provision is not made. However, the RBI has vide its circular	Sale of securities for OMO and repurchase by Government out of a non-trading portfolio would be more consistent with a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets i.e. FVOCI and not with amortised cost measurement. Therefore, where banks do not intend to trade in SLR securities and instead hold them till maturity, while also retaining the option to offer such securities for OMO or repurchase by Government of India, they should classify them under FVOCI rather than amortised cost.

Sr. No.	Issue	Recommendation
	DBOD.No.BP.BC.56/21.04.141/2010-11 dated November 1, 2010 exempted sale of securities as part of Open Market Operations (OMO) from the aforementioned 5 per cent cap. Similarly vide its mailbox clarification dated March 21, 2014 the RBI clarified that repurchase of Government securities by Government of India from banks will also be excluded from the 5 per cent cap of HTM. Further, the RBI has in the past also given special dispensations allowing transfers to HTM category. Would sales under OMO, repurchase of securities by Government of India and special dispensations by RBI be consistent with the amortised cost measurement requirements of Ind AS 109?	
5.	*Elaboration of 'infrequent number of sales' or 'insignificant in value'* While Ind AS 109 appears to envisage sale of assets held under the Amortised Cost category before maturity, the application guidance states that such sales may be consistent with a business model whose objective is to hold financial assets in order to collect contractual cash flows if those sales are infrequent (even if significant in value) or insignificant in value both individually and in aggregate (even if frequent). If more than an infrequent	In order to ensure industry wide uniform and consistent practice, the RBI, being the banking regulator, may consider issuing appropriate guidelines on 'infrequent number of sales' or 'insignificant in value' in the context of Ind AS 109, in consultation with ICAI. These guidelines may address the following key aspects. (a) The RBI could consider prescribing indicative thresholds for sales that are more than insignificant in value. For instance, there could be a rebuttable presumption that where there are more

Sr. No.	Issue	Recommendation
	number of such sales are made out of a portfolio and those sales are more than insignificant in value (either individually or in aggregate), the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows". The standard does not define or give any further guidance as to the meaning of the term 'infrequent number of sales' or 'insignificant in value'. The issue is whether there is a need to develop banking industry level guidelines to interpret and implement these terms for a uniform and consistent approach?	than 5% of sales by value of the total amortised cost of financial assets held in a particular business model, such a business model may be considered inconsistent with the objective to hold financial assets in order to collect contractual cash flows. However, this threshold may be treated as indicative. It should not preclude the classification of a business model as ineligible for amortised cost measurement, even where sales are less than the aforementioned threshold, where evidence suggests that the business model has been managed in a manner inconsistent with the objective to hold financial assets to collect contractual cash flows. (b) The threshold, if prescribed, would have to factor in a specified time period. For instance, the threshold could be reckoned with reference to each financial year. (c) The basis for measuring the threshold computation is also a relevant factor. For example, the average of the amortised cost portfolio as at the beginning and end of the financial year may be considered as a suitable basis.
6.	*What is the suitable category for the securities acquired/ held for SLR purposes* Concerns were raised that the investments by banks in financial assets to meet the stipulated Statutory Liquidity Ratios (SLR) would preclude such assets from being categorised under Amortised Cost as the intention	The Working Group is of the opinion that the SLR are prescribed to maintain the solvency and stability of the individual banks and the system as a whole. Investments in SLR securities would by themselves thus not preclude the instruments from being categorised under amortised cost category if

Sr. No.	Issue	Recommendation
	of this liquidity requirement is to sell such investments in the event of liquidity crises.	the business model and the contractual cash flow characteristics test are otherwise met. Paragraph B 4.1.4 of Ind AS 109 adequately addresses the circumstances similar to holding financial assets to meet the statutory liquidity ratio requirements. However, the above referred application guidance also makes it very clear that if the entity is required by its regulator to routinely sell financial assets to demonstrate that the assets are liquid, and the value of the assets sold is significant, the entity's business model is not to hold financial assets to collect contractual cash flows. Whether a third party imposes the requirement to sell the financial assets, or that activity is at the entity's discretion, is not relevant to the analysis.
7.	*Can the securities acquired/ held for SLR purposes, which is specific to the Indian context, qualify for FVOCI category?* Concerns were raised whether the entity has a free option to classify the investments by banks in financial assets to meet the stipulated Statutory Liquidity Ratios under FVOCI or does it have to demonstrate by selling (though not frequently) some of these financial assets?	Extant RBI instructions on SLR compliance requirements do not mandate any particular accounting classification and valuation category i.e. HTM, AFS and HFT, that exist currently. Accordingly, SLR securities can be from any of those three categories. Therefore, similarly, SLR securities can be from any of those three categories under new accounting standard and subject to compliance with specific requirements, if any. SLR securities where used for Asset Liability Management (ALM) purposes would not qualify for amortised cost and may generally qualify for FVOCI.
8.	*Can the securities acquired/ held in*	

Sr. No.	Issue	Recommendation
	excess of SLR requirements, which is specific to the Indian context, qualify for Amortized Cost category? Many entities will have securities in excess of, either due to policy choice or otherwise, SLR requirements. Questions were raised what would be the suitable classification for such excess holdings.	In view of the comments in previous paragraphs, It was also concluded that each entity would have its own business strategies/policies with regard to ensuring compliance with SLR requirements and hence any specific requirements/ regulations to categorise SLR/LCR securities into a particular classification (i.e. amortised cost, FVOCI or FVTPL) may not necessarily be in alignment with the entity's own business requirements.
9.	*Liquidity Coverage Ratio (LCR)* According to the recent Banking Sector Prudential Regulations (Basel III Framework on Liquidity Standards – Liquidity Coverage Ratios (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards), banks are required to comply with a ratio known as 'Liquidity Coverage Ratio (LCR)', whose aim is to ensure that Banks maintain adequate level of High Quality Liquid Assets (HQLA) that can be converted into cash to meet its liquidity needs for a 30 calendar day time. Liquid assets comprise of high quality assets that can be readily sold or used as collateral to obtain funds in a range of stress scenarios. They should be unencumbered i.e. without legal, regulatory or operational impediments. Further, they should not be co-mingled with Trading Positions,	As noted above the intention of holding investment securities under LCR requirement is to manage banks liquidity under a range of 'stress scenarios'. In a way it has some similarity to the India specific SLR requirement. However, there is an additional and specific regulatory operational requirement that banks should periodically monetize a proportion of assets through repo or outright sale to test the saleability of these assets. But, the regulatory prescriptions do not explicitly specify the 'proportion say 10%, 20%, 50%,etc' of the portfolio to be periodically monetized. This kind of scenario has been considered in Ind AS 109 (Refer Example 4 in Paragraph B4.1.4 of Application Guidance) and it states that '*if the entity is required by its regulator to routinely sell financial assets to demonstrate that the assets are liquid, and the value of the assets sold is significant, the entity's business model is not to hold financial assets to collect contractual*

Sr. No.	Issue	Recommendation
	should be managed with sole intent for use as a source of contingent funds and should be under the control of specific function/s charged with managing liquidity risk of the bank, e.g. ALCO. One of the key regulatory requirements is that Banks should periodically monetize a proportion of assets through repo or outright sale to test the saleability of these assets and to minimize the risk of negative signalling during period of stress. Whether investment portfolio held to comply with LCR qualifies the business model test for classification under Amortized Cost Category?	*cash flows. Whether a third party imposes the requirement to sell financial* assets, *or that activity is at entity's discretion is not relevant to the analysis*'. Thus, the business model in which securities for LCR purposes are placed and where the bank is required to monetise such securities to test saleability, and the value of assets sold is significant, would not quality under Amortised Cost Category.

2.4.10 In the specific context of Amortised Cost category, a review of the extant RBI instructions as well as discussions with bankers revealed certain potential issues which were examined by the Working Group. The views of the Working Group on these are given in the following table.

Sr. No.	Issue	Recommendation
1.	*Base rate* In terms of the standard (clause (b) Paragraph 4.1.2 and 4.1.2A of Ind AS 109), to qualify for Amortised Cost or FVOCI category, an entity shall assess whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. In terms of RBI guidelines, in India, all	In terms of paragraph 4.1.3 of Ind AS 109, interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. Paragraphs B4.1.7A and B4.1.9A–B4.1.9E

Sr. No.	Issue	Recommendation
	categories of loans (with a few exceptions) should be priced with reference to the Base Rate. The issue that arises is whether there is a possibility that the interest priced by banks based on base rate methodology would result in cash flows that preclude Amortised Cost classification.	provide additional guidance on the meaning of interest, including the meaning of the time value of money. As per RBI guidelines, base rate shall include all those elements of lending rates that are common across all categories of borrowers. Further, banks may determine their actual lending rates for loans and advances with reference to the base rate and by including other customer specific charges as considered appropriate. Annexure 1 of RBI circular Dir BC 13/13.03.00/2014-15 dated July 1, 2014 also gives an example of base rate computation methodology. The methodology suggested therein appears to be one way of calculating the time value of money. The circular however allows banks to add on customer specific charges (e.g. spreads) as considered appropriate. It is therefore important to bear in mind the nature of customer specific charges included by banks and ensure that those charges fall within the definition of time value of money, credit risk, other basic lending risks, costs and profit margin. If it includes charges/ variability for other factors such as borrower's profitability, then it may fail the test of cash flow characteristics and preclude the financial asset's classification under Amortized Cost or FVOCI. {Refer paragraph B4.1.13 (Instrument A) of the Application Guidance of Ind AS 109}.
2.	*Interest rate concessions due to collateral* Another related issue is whether interest	The fact that interest rate charged is lower

Sr. No.	Issue	Recommendation
	rate concession/ differential due to availability of collateral preclude loans from classification under the Amortised Cost category by not satisfying the characteristics of financial assets test?	due to availability of collateral does not in itself preclude the loan from classification under Amortized Cost category provided it is in-line with the bank's established pricing policy and the transaction does not involve any leverage. However, if the interest rate or repayment is variable based on periodic market value of the collateral say building under mortgage, this may render the loan ineligible for the Amortised Cost classification.
3.	*Will all non-recourse loans be precluded from classification under Amortised Cost category?* This issue is raised in light of Paragraph B4.1.16 of Ind AS 109 as per which in some cases, a financial asset may have contractual cash flows that are described as principal and interest. However, those contractual cash flows may include payments for factors other than consideration for time value of money and for the credit risk. This could be the case when a creditor's claim is limited to specified assets of the debtor or the cash flows from specified assets (e.g. 'non-recourse'[2] financial asset)	While paragraph B4.1.16 raises questions about eligibility of 'non-recourse' loans for classification under amortized cost category , paragraph B4.1.17 clears this doubt and states that the fact that a financial asset is non-recourse does not in itself necessarily preclude it from meeting the condition in paragraph 2.4.2 (b) above. In such situations, the entity should adopt a *'look through'* approach to assess whether the cash flows of underlying assets are for payment of principal and interest. If the terms of the financial asset give rise to any other cash flows or limit the cash flows in a manner inconsistent with payments representing principal and interest, the financial asset does not meet the condition in paragraph 2.4.2(b) above. Whether the underlying assets are

[2] Non-recourse debt, in this context, refers to where the loan is completely secured by collateral. In case of default, the borrower is not liable because the lender is limited to collateral pledged for that loan—the lender has "no recourse" to the borrower's other assets. Non-recourse financing is observed in infrastructure projects.

Sr. No.	Issue	Recommendation
		financial assets or non-financial assets does not in itself affect this assessment.
4.	*Performance linked repayment* In some cases of project or object finance, interest or principal repayment is linked to performance of the project or object e.g. revenue generation. Does this amount to cash flow leverage and therefore does not meet the characteristics of cash flow test as explained in paragraph 2.4.2(b) above?	This would depend upon the circumstances of the case. The lender should apply the non-recourse provisions of Ind AS 109 and 'look-through' to the underlying assets or cash flows. Loans provided for project finance may be linked to the performance of the project. An example would be where a loan is given for the construction and maintenance of a toll road and the payments of cash flows to the lender are reduced or cancelled if less than a certain number of vehicles travel on that road. Such loans are not likely to qualify for Amortised Cost measurement by the lender. Similarly, loans where the cash flows are specifically referenced to the performance of an underlying business will not qualify. In other cases, where there is no such reference and there is adequate loss-absorbing equity in the project, Amortised Cost classification may be appropriate.
5.	*Right of possession/ liquidation* Loan covenants often enable lenders/bankers right of possession/liquidation of collateral or borrowers assets in the event of credit quality deterioration or default of the borrower or issuer of the bond. Does lending of this nature meet the characteristics of cash flow test as explained in paragraph 2.4.2(b) above?	In general, normal collateralized loans such as mortgages were not intended to be covered by the non-recourse provisions of Ind AS 109. Therefore, if a loan is extended at a rate of interest that compensates the lender for the time value of money and for the credit risk, it would be eligible for Amortised Cost classification whether or not it is legally non-recourse. However, at inception, if

Sr. No.	Issue	Recommendation
		the expected repayment of a loan is primarily driven by future movements in the value of the collateral, the conditions of the characteristics of cash flow test would not be satisfied. For instance, where a loan is, in substance, an investment in the real estate market, this would call into question whether an Amortised Cost classification is appropriate.
6.	*Penal interest for delay/ default* A loan/credit facility attracts penal interest in the event of delay or default in repayment of principal or payment of interest. Does this meet the characteristics of cash flow test as explained in paragraph 2.4.2(b) above?	Terms/conditions to charge penal interest for defaulting or delinquent borrowers, is generally an additional consideration for the credit risk, and is, therefore not expected to fail the characteristics of financial asset test for qualifying for Amortised Cost classification.
7.	*Option to convert into equity* (a) In some cases term loans or investment in bonds/debentures provide an option to convert into equity. Does this meet the characteristics of cash flow test as explained in paragraph 2.4.2(b) above	(a) Where the option to convert is only given in exceptional situations, for instance, where there is a continuing payment default, it may still satisfy the cash flow characteristics test. However, where the term loan or bonds contain equity conversion option, without any added condition, it is likely that the interest consideration may not reflect only time value of money/credit risk but also reflects other factors/considerations. Therefore, it may be unlikely to meet the characteristics of financial asset test for Amortised Cost classification.

Sr. No.	Issue	Recommendation
	(b) If in respect of situation described above, the conversion option is valid only in the event of default of the borrower or issuer of the bond. Does this meet the characteristics of cash flow test as explained in paragraph 2.4.2(b) above?	(b) It is possible that some loan covenants provide an option for banks to convert the loan into equity in the event of defaults. This kind of clause is unlikely to have bearing on the consideration of interest or pricing charged, i.e. interest reflects time value of money and credit risk only. Therefore, such an option may not necessarily cause failure to meet the characteristics of financial asset test for Amortised Cost classification. The above conclusion would depend on the circumstances of the case.
8.	*Right to recall* Can a bank's right to recall loans before maturity fail to meet the characteristics of financial asset test criteria for amortized cost? Can the borrower's right to repay loans before maturity fail the characteristics of financial asset test criteria for Amortised Cost classification?	Paragraphs B4.1.10, B4.1.11 & B4.1.12 (Ind AS 109) provide guidance on when put/call/variable cash-flow and other contractual provisions and terms may still result in cash-flows that are principal and interest on principal – thus not precluding Amortised Cost classification. It is general practice that in most cases, the terms and conditions governing the sanction of loans/credit facilities contain a clause enabling a bank to recall the loans in the event of credit quality deterioration of borrower, repayment defaults and violation of loan covenants etc. Existence of such a feature may not necessarily preclude the bank's ability to classify such loans under amortized cost. In addition, plain vanilla prepayment options given to borrowers, as long as within the conditions outlined in

Sr. No.	Issue	Recommendation
		application guidance, would not be generally be expected to preclude classification under Amortised Cost.
9.	*Subordinated loans and investments* Do subordinated loans or investments in subordinated bonds/debentures fail the characteristics of financial asset test thereby precluding such financial assets from being classified as Amortized Cost?	Paragraph B4.1.19 states that *"In almost every lending transaction the creditor's instrument is ranked relative to the instruments of the debtor's other creditors. An instrument that is subordinated to other instruments may have contractual cash flows that are payments of principal and interest on the principal amount outstanding if the debtor's non-payment is a breach of contract and the holder has a contractual right to unpaid amounts of principal and interest on the principal amount outstanding even in the event of the debtor's bankruptcy. For example, a trade receivable that ranks its creditor as a general creditor would qualify as having payments of principal and interest on the principal amount outstanding. This is the case even if the debtor issued loans that are collateralised, which in the event of bankruptcy would give that loan holder priority over the claims of the general creditor in respect of the collateral but does not affect the contractual right of the general creditor to unpaid principal and other amounts due."* In general, subordinated loans or subordinated bonds/debentures carry higher interest rates - such higher rates may generally be attributable to the additional credit risk borne by the holders. Therefore, such financial assets may not necessarily fail

Sr. No.	Issue	Recommendation
		the characteristics of financial asset test for Amortized Cost classification. However subordinated bonds issued in special situations such as securitizations, structured products, may need to be evaluated with reference to requirements specified in paragraphs B4.1.20 to 26 of the application guidance (contractually linked instruments- discussed further below).
10.	*Additional Tier I(AT 1) instruments* As part of Basel III Capital Regulations in India, banks are permitted to include Perpetual Non Cumulative Preference Shares (PNCPS) and Perpetual Debt Instruments (PDI) issued by them subject to certain conditions as part of AT 1. These conditions *inter-alia* include loss absorption features that entail a write down/ conversion to equity at certain pre-specified triggers. In order to be eligible for inclusion in AT 1 these features have to be contractually included in the documents. The issue arises as to whether investments in such AT1 instruments would be eligible for amortised cost classification.	Ind AS 109 addresses this issue through Example of Instrument E in paragraph B.4.1.13, wherein it clarifies that "*the contractual cash flows would not be solely payments of principal and interest on the principal amount outstanding if the contractual terms of the financial instrument permit or require the issuer or another entity to impose losses on the holder (eg by writing down the par amount or by converting the instrument into a fixed number of the issuer's ordinary shares) as long as those contractual terms are genuine, even if the probability is remote that such a loss will be imposed.*" Thus, AT 1 instruments would not qualify for amortised cost or FVOCI classification, since they do not meet the contractual cash flow test mentioned in paragraph 2.4.2(b) above.
11.	*Contractually linked instruments* Paragraph B4.1.21 of the application guidance of Ind AS 109 outlines conditions whereby a particular tranche of a contractually linked instrument may	Ind AS 109 does not prescribe a method for comparing the exposure to credit risk in the tranche held by the entity to that of the underlying pool of financial instruments. In

Sr. No.	Issue	Recommendation
	meet the characteristics of financial asset test. Part (c) thereof requires that the exposure to credit risk in the underlying pool of financial instruments inherent in the tranche is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments (for example, this condition would be met if the underlying pool of instruments were to lose 50 per cent as a result of credit losses and under all circumstances the tranche would lose 50 per cent or less).' How should entities determine whether or not the 'exposure to credit risk' in the tranche is less than that of the underlying pool of financial instruments?	some cases, it might be possible to compare the credit rating allocated to the tranche as compared with that (or the average of those) for the underlying pool of financial instruments, if they are all rated. Also, for the more senior and junior tranches, it may be obvious, with relatively little analysis, whether the tranche is less or more risky than the underlying assets. However, in some circumstances involving complex securitisation structures, a detailed assessment may be required, for instance using a method similar to that prescribed by US GAAP ASC 810-102, formerly FIN 46(R)3. The analysis may involve developing various credit loss scenarios for the underlying pool of financial instruments, computing the probability weighted outcomes of those scenarios, determining the probability weighted effect on the tranche held, and comparing the relative variability of the tranche held with that of the underlying assets.
12.	*Regulated interest rates* In cases where the interest rates are regulated, would interest charged meet the criteria of time value of money?	Paragraph B4.1.9E of application guide of Ind AS 109 specifically addresses this aspect of time value of money. It states that, despite requirements in other paragraphs, regulated interest rate shall be considered a proxy for the time value of money element for the purpose of applying the condition in paragraphs 4.1.2(b) and 4.1.2A(b) of Ind AS 109, if that regulated interest rate provides consideration that is broadly consistent with the passage of

Sr. No.	Issue	Recommendation
		time and does not provide exposure to risks or volatility in the contractual cash flows that are inconsistent with a basic lending arrangement.

2.5 Recognition

2.5.1 As per Ind AS 109, an entity may recognise a financial asset in its Balance Sheet only when it becomes a party to the contractual provisions of the instrument. In the case of **regular way[3] purchase or sale**, Ind AS 109 allows the option to use either trade date or settlement date accounting. Trade date refers to the date that an entity commits itself to purchase or sell an asset. Under trade date accounting for purchases, the entity recognises an asset to be received and the liability for the payment on the trade date itself. Settlement date is the date the asset is delivered to the entity in the case of purchase or delivered by the entity in the case of sale. Under settlement date accounting for purchases, the entity recognises the asset on the date it is received. Under settlement date accounting for assets carried at fair value, the change in fair value between trade date and settlement date is required to be recognised in the Profit and Loss Account or Other Comprehensive Income as required. The standard requires that entities shall apply the same method consistently for all purchases and sales of financial assets that are classified in the same way as per Ind AS 109.

2.5.2 There may be a conflict between Ind AS 109 and RBI guidelines on the issue of trade date/settlement date accounting. While giving the option to use either trade date or settlement date accounting, Ind AS 109 requires that an entity shall apply the same method consistently for all purchases and sales of financial assets that are classified in the same way in accordance with this Ind AS. For this purpose assets that are <u>mandatorily</u> measured at

[3] A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

FVTPL form a separate classification from assets designated as measured at FVTPL. In addition, investments in equity instruments accounted for using the option provided in Ind AS 109 (paragraph5.7.5) form a separate classification. Paragraph D.2.1 to D.2.3 of the Implementation Guidance of Ind AS 109 illustrates how the above principles can be applied in practice. However, RBI guidelines (refer circular DBOD.No.BP.BC.58/21.04.141/2010-11 dated November 4, 2010), with a view to bringing in uniformity in the methodology of accounting for investments in Government securities, require that banks should follow 'Settlement Date' accounting for recording purchase and sale of transactions in Government Securities.

2.5.3 *Recommendation:* RBI circular referred to above which mandates settlement date accounting for SLR securities may have to be reviewed keeping in view the scope and coverage of the principles of Ind AS 109. Combined reading of the Ind AS 109 text, application guidance and implementation guidance, indicates that trade date or settlement date accounting may be required to be applied uniformly to all impacted financial assets classified within measurement category levels e.g. a) Amortised Cost, (b) FVOCI, (c) mandated FVTPL, (d) designated at FVTPL,(e) equity instruments designated as measured at FVOCI, etc. Therefore, trade date or settlement date accounting is required to be adopted at a higher level than at the level of a type of security viz. Government Securities.

2.6 Measurement of financial assets

2.6.1 When an entity first recognises a financial asset, it shall measure it at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. An exception to this principle is that trade receivables that do not have a significant financing component (determined in accordance with Ind AS 115) at their transaction price (as defined in Ind AS 115).

2.6.2 The fair value of a financial asset at initial recognition is normally the transaction price (i.e. the fair value of the consideration given); however, if part of the consideration given is for something other than the financial instrument, the fair value of the financial instrument is estimated using a valuation technique. For example, the fair value of a long term loan or receivable that carries no interest can be estimated as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset. If an entity originates a loan that bears an off-market interest rate (e.g. 5 per cent when the market rate for similar loans is 8 per cent), and receives an upfront fee as compensation, the entity recognizes the loan at its fair value i.e. net of the fee it receives.

2.6.3 Certain issues that arise in the context of measurement and the recommendations of the Working Group are explained in the table below.

Sr. No.	Issue	Recommendation
1.	*Absence of active markets* In the absence of an active and transparent market for loans and advances in India, how would an entity determine whether a loan is at a market rate or at an off-market rate?	Though rebuttable, the Working Group is of the opinion, that the transaction price concluded based on the bank's well documented, transparent policies articulating the interest rate for various loans and receivables or group of loans and receivables having similar characteristics, can be taken as the market rates provided these transactions are arm's length in nature, and there is no evidence to the contrary.
2.	*Base Rate* As RBI has introduced a base rate mechanism for pricing all lending products, is there a need to evaluate	The Working Group believes that it is not expected that the base rates of each bank would necessarily be the same due to

Sr. No.	Issue	Recommendation
	rates charged by individual banks and thereby, fair values of individual loans, by comparing the base rates offered by other banks?	different bases of funding, deposit profile etc. There is a potential that differences in base rates could be material e.g. base rate of Bank A is 8.6% and base rate of Bank B is 7.25%. Also other elements of pricing viz. credit risk premium and customer specific charges are expected to vary/ likely to be different. In view of the above, it may not be necessary to evaluate rates charged by other banks by comparing base rates offered by other banks for the purpose of arriving at the fair value of individual loans in the normal course.
3.	*Directed lending* Directed lending (Priority sector lending (PSL)) mandates banks to lend at specified rates for certain products/ sectors– in such circumstances, are those loans considered off-market and require fair valuation using a valuation technique?	The Working Group is of the view that administered (Regulated) interest rates will have to be considered as market rates because any exercise to arrive at market rates using the application guidelines given in the standard i.e. prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) and with a similar credit rating, would not be expected to lead to any different conclusion. In light of the above, computation of fair value using valuation technique is not required in such cases. The Working Group also noted that RBI does not stipulate/administer interest rates for most categories of PSL loans and banks voluntarily provide such PSL loans at concessional rates in the competitive market. Even in such cases, transaction

Sr. No.	Issue	Recommendation
		price is treated as fair value. It is a rebuttable presumption that loans given based on well documented/ transparent credit and pricing policy of the bank, are considered given at fair value unless there is evidence to the contrary.
4.	*Concessional Staff Loans* Would loans given to employees at concessional rates be recognised at the transaction price?	Ind AS 109 requires initial recognition at fair value. Loans and advances given at concessional rates to staff are not based on market terms and therefore the transaction price cannot be indicative of the fair value, since it includes an element of employee benefits. In line with the Application Guidance to Ind AS 109, a bank may measure the fair value of such a loan as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. The difference may be treated as an employee benefit and expensed accordingly. ICAI may be requested to issue Educational Material further clarifying such situations.
5.	*Loan origination costs* Ind AS 109 provides that at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.	As per Ind AS 109, transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument. As per the Application Guidance to Ind AS 109,

Sr. No.	Issue	Recommendation
	Thus, eligible transaction costs may be included at initial recognition of financial asset held in amortised cost/ FVOCI category, rather than being expensed. The issue is which transactions costs would be eligible for inclusion in the amount initially recognised.	transaction costs include fees and commission paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

2.7 Reclassification

2.7.1 An entity is required to reclassify financial assets only in the limited circumstances of a change in the business model. Reclassification can only be applied prospectively from the reclassification date as per the provisions of Ind AS 109. Any previously recognised gains, losses or interest cannot be restated. In case of a reclassification from amortised cost category to FVTPL or FVOCI categories, the fair value is measured at reclassification date and gain/loss is to be recognised in the profit or loss or OCI, respectively. In the case of a reclassification from fair value to amortised cost, the fair value at reclassification date becomes the carrying amount. The following table illustrates reclassification between categories and the accounting impact:

Sr. No.	Original Category	New Category	Accounting impact
1	Amortised cost	FVTPL	Fair value is measured at reclassification date. Difference from carrying amount should be recognized in profit or loss.
2	FVTPL	Amortised Cost	Fair value at the reclassification date becomes its new gross carrying amount.
3	Amortised cost	FVOCI	Fair value is measured at reclassification date. Difference from carrying amount should be recognized in OCI. Effective interest rate is not adjusted as a result of the reclassification.
4	FVOCI	Amortised	Fair value at the reclassification date becomes its new

Sr. No.	Original Category	New Category	Accounting impact
		cost	amortised cost carrying amount. Cumulative gain or loss in the OCI is adjusted against the fair value of the financial asset at reclassification date
5	FVTPL	FVOCI	Fair value at the reclassification date becomes its new gross carrying amount.
6	FVOCI	FVTPL	Fair value at reclassification date becomes the carrying amount. Cumulative gain or loss on OCI is reclassified to profit or loss at reclassification date.

2.7.2 Issues pertaining to reclassification and the recommendations of the Working Group are given in the table below.

Sr. No.	Issue	Recommendation
1.	*Circumstances in which reclassification is permitted* In terms of Ind AS 109, when and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. The question that arises now is that how to apply this requirement in practice. Also, how often can a bank re-classify financial assets?	When an entity changes its business model for managing its financial assets, it is required to reclassify all affected financial assets to reflect the revised business model. Such changes are expected to be infrequent. Reclassification is prohibited in all other circumstances. The application guidance (paragraph B4.4.1 of Ind AS 109) provides examples of circumstances when a reclassification is required or is not permitted.

Sr. No.	Issue	Recommendation
2.	*Recording the reclassification* Paragraph 5.6.1 of Ind As 109 further goes on to state that 'If an entity reclassifies financial assets in accordance with paragraph 4.9, it shall apply the reclassification prospectively from the reclassification date. The entity shall not restate any previously recognised gains, losses or interest.' The issue that arises is that if a bank changes its business model during the year, and is required to reclassify all affected financial assets, when is the reclassification recorded?	The Application Guidance vide paragraph B4.4.2 requires that a change in the objective of the entity's business model must be effected before the reclassification date. A change in the entity's business model must be accounted for prospectively from the reclassification date, which is defined in the standard as *'the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets'*. For example, an entity with a reporting year-end of 31 December might determine that there is change in its business model in August. If the entity prepares and publishes quarterly reports under Ind AS, it should apply the old classification up to 30 September and, as of 1 October, reclassify all affected financial assets and apply the new classification prospectively from that date. However, if the entity only prepares annual accounts, the entity is required to reclassify all affected financial assets and apply the new classification as of 1 January of the following year.
3.	*Change in characteristics of financial instrument* Is reclassification permitted or required when the characteristics of a financial asset changes e.g., when the conversion option of a convertible bond lapses? Does the answer differ if the convertible bond is converted into shares of the issuer?	Reclassifications are neither permitted nor required when the characteristics of a financial asset vary over the asset's life based on its original contractual terms. Unlike a change in the business model, the contractual terms of a financial asset are known at initial recognition and an

Sr. No.	Issue	Recommendation
		entity classifies the financial asset at initial recognition based on the contractual terms over the life of the instrument. Thus, no reclassification is permitted or required when, for instance, the conversion option of a convertible bond lapses. If, however, a convertible bond is converted into shares, the shares represent a new financial asset to be recognised by the entity. The entity would then need to determine the classification category for the new equity investment.

2.8 First time adoption

2.8.1 As per the provisions of Ind AS 101: *First Time Adoption of Indian Accounting Standards* an entity shall assess whether a financial asset meets the conditions to be classified as amortised cost or FVOCI as specified in paragraphs 4.1.2 and 4.1.2 A of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind ASs (paragraph B8). Further, If it is impracticable[4] (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind ASs

[4] In terms of Ind AS 8, applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

(a) the effects of the retrospective application or retrospective restatement are not determinable;

(b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or

(c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

   (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and

   (ii) would have been available when the financial statements for that prior period were approved for issue from other information.

shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind ASs.

2.8.2 The issue that arises is whether banks need to rework amortised cost using Ind AS 9 which will involve going back to the original date of booking the transaction. This may pose significant operational challenges due to lack of adequate and reliable data/MIS required to compute EIR e.g. fees/commission charged, transaction costs incurred, expected life of the products and so on. In the absence of an active market for loans, the alternative approach of the Ind AS 101 to consider fair value at the date of transition to Ind AS may also be challenging. Therefore, the issue for consideration was whether a carve-out from IFRS can be considered to the effect that the carrying amount as per Indian GAAP at the date of transition to Ind ASs shall be the new amortized cost or gross carrying amount of the financial instrument at the date of transition to Ind AS.

2.8.3 *Recommendation:* Operational complexities and challenges of retrospective application of EIR method would depend upon variety of individual bank specific factors such as nature of banks products/services, IT environment, banks pricing/waiver policies and practices, tenor and ticket size of the loans/advances, data retention policy, mergers/acquisitions in the past and so on. Secondly, resorting to carve-out from IFRSs may not be advisable as it may adversely affect the primary objective of availing maximum benefit of embracing global best frameworks/practices. However, banks can evaluate potential workarounds keeping in mind the following aspects:

(a) Banks in consultation with their auditors could consider gauging the materiality of continuing to use existing book values suitably adjusted with assumptions for receipts and payments to be included in the computation of EIR. These assumptions could be derived on the basis of past records of policies and practices regarding the pricing/ fee structure for their various products. In some cases, manual workarounds at a portfolio level application of EIR method can be considered.

(b) Ind AS 101 vide paragraph B 8C provides that If it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind ASs shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind ASs. Therefore, banks may also evaluate feasibility of choosing fair value for some items bearing in mind the reliability of fair value determination.

3. Classification and Measurement of Financial Liabilities

3.1 The IASB finalised the requirements relating to financial liabilities in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39 with some changes made to the fair value option for financial liabilities to address the issue of own credit risk. The Working Group reviewed the Ind AS 32 and Ind AS 109 and also compared these requirements with the existing accounting practices and RBI guidelines on the matter to identify and assess potential issues as well as suggest solutions.

3.2 The key issues identified by the Working Group pertain to the following areas

(a) Initial recognition
(b) Subsequent measurement
(c) De-recognition of financial liabilities
(d) Offsetting/ netting
(e) Classification: Equity versus liability

3.3 **Initial recognition**

3.3.1 *Initial recognition at fair value***:** Ind AS 109 requires initial measurement of financial liabilities at fair value irrespective of the category in which the financial liability will be subsequently categorised. As per the standard, at initial recognition, a financial asset or financial liability shall be measured at fair value, plus or minus, in the case of a financial asset or financial liability not at Fair Value Through Profit or Loss (FVTPL), transaction costs that are directly attributable to the acquisition or issue of the financial liability. The standard also states that the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. However, if part of the consideration given or received is for something other than the financial instrument, the fair value of the financial instrument is estimated using a valuation technique. In most situations, the transaction value will equal the fair value on initial recognition and as such no significant changes from current practices will be required. However, for certain types of transactions, e.g. preferential rates of deposits offered, there could be an impact of such fair valuation compared to current practices. These are discussed below:

Sr. No.	Issue	Recommendation
1.	*Demand and Savings Deposits* Current account deposits are repayable on demand and in India they are generally interest free. Most current account portfolios have a 'core' component that is constantly maintained with the Bank. Given that deposits are to be recognised at fair value on initial recognition, the issue for consideration was whether there is a need for an adjustment to fair value such interest free deposits using a valuation technique by comparing market rate applicable for behavioural tenor of the core component. It is to be noted that domestic savings accounts carried interest rates fixed by RBI until October 25, 2011 when the interest rates on savings bank accounts of resident Indians was deregulated. With effect from December 16, 2011 banks are free to determine their interest rates on both savings deposits and term deposits of maturity of one year and above under Non-Resident (External) Rupee (NRE) Deposit accounts and savings deposit under Ordinary Non-Resident (NRO) account. However, interest rates offered by banks on NRE/ NRO deposits cannot be higher than those offered by them on comparable domestic rupee deposits. Savings accounts are repayable on demand though there is a core of deposits that remains outstanding for a long period. In view of the above, the issue for	Paragraph 47 of Ind AS 113 states that *"the fair value of a financial liability with a demand feature (e.g. demand deposit) is not less than the amount of payable on demand, discounted from the first date that the amount could be required to be paid."* As such in the case of current deposits, no change from the current practice of accounting at transaction price is required. Fair value of any financial instrument should be viewed from the lens of the prevailing market practices, as well as the features applicable for the individual product category/similar item. Regulated lower interest rate for certain categories of savings accounts is a general market feature of the industry. Therefore, there is no need for attempting to compute the fair value using an assumed/artificial surrogate market rate. In light of deregulation of interest rates on savings bank account, banks will need to consider if their deposit rates are in line with the market range of rates being offered. Only in the case of outliers, it will be relevant to consider the need to fair value such deposits. A process needs to be instituted to ensure that there is a periodic comparison / analysis of market rates viz. the rates being offered by individual entities. Additionally, just like current deposits, savings account deposits

Sr. No.	Issue	Recommendation
	consideration was whether the fair value of these deposits is less than the demand amounts and therefore there is a need to estimate the fair value by using a valuation technique by comparing the market rate.	can also be withdrawn on demand. Therefore, based on the guidance contained in the Ind AS standards, the fair value of such a liability cannot be determined to be lower than the amount that can be withdrawn on demand.
2.	*Term Deposits* Generally, banks at times offer preferential interest rates to certain customers (high value corporate deposits, senior citizens). Further, individual bank's deposit rates may be different from other banks' rates for similar tenor/amount. Rates would differ based on deposit size, bank's liquidity needs etc. The issue for consideration was whether there is a need to revisit and estimate the fair value for initial measurement of a term deposit by comparing with market rates.	Banks will need to consider if their deposit rates are in line with the market range of rates being offered. Only in the case of outliers, it will be relevant to consider the need to fair value such deposits. A process needs to be instituted to ensure that there is a periodic comparison / analysis of market rates vis-a-vis the rates being offered by individual entities. As a rule of thumb, an arms' length transaction between unrelated parties can be assumed to be at fair value (unless there is evidence to the contrary or the transaction is part of a larger set of transactions and some additional value / consideration is sought to be paid / received through the deposit rate). Areas where there is likely to be an impact of fair valuation would be the specific incentive based pricing offered to employees and ex-employees for term deposits (as these are specific to certain individuals for certain banks). The difference between fair value and transaction price would generally be considered as an employee cost. On the other hand, incentive pricing offered to senior citizens would not normally require adjustment as these are general market

Sr. No.	Issue	Recommendation
		practice (i.e. offered by all banks to all senior citizens).
3.	*Financial Guarantee contracts* Currently, financial guarantees are shown as contingent liabilities. Disclosure requirements of contingent liabilities are governed by the extant accounting standard AS 29, in terms of which an entity should disclose, for each class of contingent liability, a brief description of the nature of contingent liability and where practicable, inter alia, an estimate of its financial effect. Such estimate should be a best estimate of the expenditure required to settle the present obligation at balance sheet. However, as per the Ind AS, financial guarantee contracts are covered by Ind AS 109, unless the issuer of such financial guarantees has previously asserted that it regards such contracts as Insurance Contracts and elects to apply Ind AS 104. As per paragraph 5.1.1 of Ind AS 109, the issuer should initially measure the contract at fair value which at inception is generally the fee / premium received. Subsequently, unless the financial guarantee contract is part of FVTPL category or arising out of transfer of financial assets that does not meet derecognition criteria, it should be measured at higher of the amount of loss allowance determined as per Ind AS 109 and the amount initially recognised less cumulative amount of income recognised in accordance with Ind AS 115.	The treatment as suggested by IND AS 109 can be adopted. In most cases, this will not be a significant change other than for cases where guarantees are not adequately priced by the bank or alternatively the bank currently recognises the entire guarantee commission upfront on the issuance of such a product. However, many banks in India already recognise guarantee commissions over the life of the commitment period and hence this should not be such a significant departure from extant practices. It should be noted that credit related considerations (need for provisions on guarantee exposures etc.) will be addressed as part of the impairment assessment and is not therefore covered in this section of the report. Disclosure of contingent liability for financial guarantees and co-acceptances continues but the amount of contingent liability disclosed will be net of what is recognised as on balance sheet financial liability.
4.	*Trade date vs settlement date*	

Sr. No.	Issue	Recommendation
	IND AS 109 does not specify the basis of accounting to be followed between trade date and settlement date accounting except for trading liabilities and derivatives which are required to be accounted for on a trade date basis.	Most entities in India account for liability transactions (other than trading liabilities and derivative contracts) on a settlement date basis. As such, no change from the current practice is envisaged.

3.4 **Subsequent measurement**

3.4.1 Ind AS 109 provides for two measurement categories for financial liabilities, viz. fair value through profit and loss (FVTPL) and amortised cost. Financial liabilities held for trading and derivatives are classified under FVTPL while all other financial liabilities are measured at amortised cost, unless the fair value option is used. Subject to certain conditions, Ind AS 109 provides the option to designate a financial liability as FVTPL.

3.4.3 Some issues identified in this context and the Working Group recommendations thereon are discussed below:

Sr. No.	Issue	Recommendation
1.	*Financial liabilities under FVTPL* Presently under existing Indian GAAP standards, all financial liabilities except certain derivatives are measured at cost. In view of the FVTPL option under IAS 39, many prudential regulators had concerns on the incomes/expenses recognised in profit or loss account or OCI when there is a change in the credit worthiness of the issuer. The issue for consideration was whether there is a need to eliminate or remove the classification of financial liabilities under FVTPL category.	There was a discussion as to whether banks should seek specific permission from the Reserve Bank of India before designating any non-trading liability as fair value through profit or loss and be able to satisfy the regulator of the need for such designation and the methodology proposed to be followed to measure fair value and isolate the component of fair value changes pertaining to own credit risk. This requirement is to ensure that there is a degree of consistency in application of such valuation methodology and principles. However, it was noted that

Sr. No.	Issue	Recommendation
		if the FVTPL category is not permitted or its scope is curtailed, it could pose a number of operational issues for issuers of structured notes (mainly NBFCs in India) as they would be forced to account for instruments differently from how they price and risk manage their businesses. In view of the above, RBI may consider allowing full fair value category (including the consideration measurement of changes in own credit risk) in view of the following: (a) This approach is now taken across the globe because in reality, entities do realise gains in fair value (i.e. including on account of its own credit risk) by buying back debts/bonds. (b) Ind AS 109 has corrected the anomaly of recognising in income statement gains/losses due to own credit risk. (c) Availability of FV option eliminates the burden of complex hedge accounting. Further, this aligns the measurement of trading liabilities (where own credit risk changes are considered) with those liabilities designated as FVTPL. (d) There will be inconsistency with initial measurement of liability which includes credit risk element. (e) Use of 'Fair Value' option is not freely available. (Paragraph4.2.2 & 4.3.5 of Ind AS 109) There are stringent prerequisites and norms before any financial liability is designated as FVTPL.

Sr. No.	Issue	Recommendation
		(f) RBI has considered different treatment of such gains/losses for prudential requirements under Basel III. Similar approach can be adopted in computing distributable profits.
2.	*Treatment of transaction costs incurred with raising liabilities* Amortised cost measurement includes the capitalisation of transaction costs that are incremental for an entity and are directly attributable to the issuance of the related liability. In terms of Paragraph 5.1.1 of Ind AS 109, at initial recognition, Financial Assets (FA) or Financial Liabilities (FL) shall be measured at Fair value, plus or minus, in the case of a FA or FL not at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the FA or FL. Thus, Ind AS 109 requires transaction costs (incremental costs in nature and directly attributable to issue of FL) to be recognised as part of the Effective Interest Rate 'EIR' of the instrument issued (in effect amortised over the life of the instrument). Appendix A to Ind AS 109 defines transaction cost as incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see paragraph B5.4.8). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument. Paragraph B5.4.8 of Ind AS 109 states that transaction costs	Amortisation of such costs should be permitted as long as they are both directly attributable and incremental in nature to the issuance of the liability. A majority of internal costs (e.g. salary costs) while potentially directly attributable to the act of raising resources for the entity, would not be incremental in nature and hence would not qualify for deferral as part of the EIR. External costs such as road shows, publicity, advertising etc. while incremental in nature may not be directly attributable to the liabilities raised because it is difficult to demonstrate the direct connection between costs such as publicity which arguably relate to the institution with the specific act of the issuance of a liability. Costs that would typically qualify for deferral as part of EIR would be those such as merchant banker fees, lawyers' fees, auditors' fees, rating agency fees etc. The recognition of EIR / cost related deferrals will change the carrying amounts of instruments recorded in the financial statements. Further, the provisions of Section 15 of the Banking Regulation Act would also need

Sr. No.	Issue	Recommendation
	include fees and commission paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties. Accordingly, certain sourcing costs for raising deposits and borrowings will be required to be capitalised under Ind AS / IFRS compared to the current practice and requirement for immediate recognition in profit or loss under Indian GAAP / banking guidelines. Some NBFCs look to amortise these costs over the tenor of the underlying issued instrument. Entities will often incur costs such as commissions, fees associated with raising funds through issuance of liabilities such as bonds both in the international and the domestic market. The issue for consideration was whether these costs should be recognised upfront or over the life of the instrument issued as also the type of costs that would qualify for amortisation.	to be either modified or be interpreted in such a manner to allow banks to capitalise / defer certain origination costs that qualify as transaction costs associated with the issuance of liabilities that are not classified as fair value through profit or loss. This will avoid conflict with the application of the new standard and the ability of entities to declare dividends.

3.5 De-recognition of financial liabilities

3.5.1 Financial liabilities are de-recognised when they are extinguished i.e. the rights to their cash flows expire. An area where Ind AS 109 provides more guidance as compared to current Indian GAAP is with regard to situations where one liability is being replaced with another liability; including how to assess if such a situation represents a new liability or a continuation of an existing liability. No significant change in practice is envisaged in this area.

3.6 Off-setting/ netting

3.6.1 Ind AS places a high threshold for any balances to qualify for offsetting or net presentation in a balance sheet. The requirements include:

(a) A currently legally enforceable unconditional right to settle an asset and liability on a net basis

(b) An intention to either settle on a net basis or to realise the asset and settle the liability simultaneously (which may be backed by past practice).

Further, in accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability. Application Guidance AG 38 of Ind AS 32 states that where the legal right of set off is enforceable only on the occurrence of some future event e.g. default of the counterparty, such arrangements do not meet the condition for off-set. Accordingly, consistent with current practice of most banks, very few transactions will qualify for offsetting. However, some issues identified in this context and the recommendations of the Working Group thereon are discussed below:

Sr. No.	Issue	Recommendation
1.	***Presentation of Inter Bank Participation Certificates (IBPC)*** Interbank Participation Certificates in terms of extant RBI guidelines issued vide circular DBOD.No.BP.BC.57/62-88 dated December 31, 1988 may be of two types: (i) with risk sharing, and (ii) without risk sharing. RBI has also prescribed the accounting treatment for both types of participations as under <u>(i) With Risk Sharing</u> In the case of the issuing bank, the aggregate amount of participation would	The RBI accounting treatment for IBPC with risk sharing will not be in line with Ind AS 32 offsetting requirements. Banks would also need to review the terms of their participation to ascertain whether the derecognition requirements of Ind AS 109 have been met. RBI may consider withdrawing the accounting related aspects of the circular dated December 31, 1988, so that there is no contradiction with Ind AS.

Sr. No.	Issue	Recommendation
	be reduced from the aggregate advances outstanding. The participating bank would show the aggregate amount of such participations as part of its advances (ii) Without Risk Sharing The issuing bank will show the amount of such participations as borrowing while the participating bank will show the same under Advances to Banks i.e. due from banks.	
2.	*Presentation of unrealised gains/losses (mark-to-market-MTM) of forex and derivatives* Presently, banks in India follow different presentation practices. A few banks follow Ind AS 32 principles of offsetting and hence present MTM gains/losses on gross basis. However, other banks offset unrealised gains and losses of forex and derivatives contracts and present one net amount within Other Assets" and "Other Liabilities" depending upon the net position. This accounting and presentation practice may not be in accordance with Ind AS 32 principles as the criteria for offsetting financial assets and financial liabilities is unlikely to be met in all cases.	(a) Balance Sheet and Schedules prescribed under the Third Schedule to the Banking Regulation Act 1949 need suitable amendments to facilitate the changed presentation/disclosures. (b) Given that accounting offsetting may not be available, RBI may need to review and recalibrate prudential limits for inter-bank liabilities (IBL) issued vide circular DBOD.No.BP.BC.66/21.01.002/2006-2007 dated March 6, 2007. Further, there may also be a case to review the treatment of derivatives for the computation of demand and time liabilities (DTL).
3.	*Bills Payable and Acceptances* Under Ind AS, banks liabilities under acceptances, endorsements of customer bills will have to be recorded as liabilities on the balance sheet with a corresponding receivable shown as assets. Currently,	In order to comply with Ind AS requirements, the balance sheet format would need to suitably incorporate this aspect (refer Annex I). Such a presentation could result in significant

Sr. No.	Issue	Recommendation
	these are recorded as off balance sheet items.	increase in demand and time liabilities and therefore have CRR/SLR implications if the assets and liabilities are not netted off for CRR/SLR computation. RBI may be therefore like to review the instructions for computation of DTL on account of this aspect.

3.7 Equity vs Liability classification

3.7.1 As per Ind AS 32, classification as equity or liability for a financial instrument is based not on its legal form (e.g. a share or a bond) but in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. Accordingly, a number of changes in current practice could be envisaged in this area.

3.7.2 There were no issues identified with reference to classification and presentation of 'Paid up Equity Share Capital' and 'Reserves & Surplus' in the financial statements. However, there would be a need to decide whether certain special reserves created as OCI can be treated as "free reserves" for the distribution of dividend. Such reserves currently resulting from Ind AS principles include (a) FVOCI assets, (b) cash flow hedge reserve, (c) own credit risk on financial liabilities, (d) revaluation surplus and (e) remeasurements of net defined benefit liability (asset) for employee benefits under Ind AS 19. While the treatment of these special reserves has been suitably dealt with by RBI for prudential regulatory capital purposes under Basel III, there may be a need to decide on the suitable classification of these reserves for distribution of profits. RBI may consider uniform regulatory prescriptions in this regard.

3.7.3 While there will not be any change in the basic classification of common equity shares on one end of the spectrum and deposits / borrowings on the other end of the spectrum, there could be an impact in terms of classification for certain quasi equity and subordinated debt type instruments. An analysis of such instruments particularly in the context of Basel III capital instruments issued by banks, the accounting practices/RBI guidelines currently adopted and the recommendations of the Working Group are given in the table below.

<table>
<tr><th>Sl. No.</th><th>Instrument and its key features</th><th>Extant RBI Guidelines</th><th>Suggested Accounting Classification</th></tr>
<tr><td>1.</td><td>Perpetual Debt Instruments (PDI) qualifying for Additional Tier 1 Capital

(a) No Put option but Call option after 5 years at the option of the issuer only
(b) Non-cumulative
(c) Full discretion for banks at all times to cancel distributions; dividend stoppers permitted but it must not impede the full discretion that bank must have at all times to cancel distributions/payments
(d) Loss absorption features:
i) Pre-specified trigger (6.125% of RWA) through conversion or write-down (temporary or permanent)
ii) Conversion/write-down mechanism which allocates losses to these instruments must generate common equity Tier 1 under applicable accounting standards
iii) Point of Non-Viability Trigger also at the option of RBI to be converted into common equity or fully and permanently written off
(e) Claims of investors in PDIs will be superior to claims of investors in equity shares and PNCPS but subordinated to the claims of</td><td>Classification under Schedule 4- Borrowings in the Balance Sheet (Annexure 4 of Master Circular Basel III Capital Regulations, dated July 1, 2015)</td><td>(i) Instruments with Conversion Feature
If the instrument has a conversion feature, as the conversion option is not a “fixed for fixed” conversion option under Ind AS 32, the whole instrument is a liability and all payments made shall be characterised as interest in the income statement.

(ii) Instruments with Write Off Feature
As the issuer has no obligation to deliver cash / other financial assets or to exchange financial assets/financial liabilities, the instrument would be fully equity in nature and the coupons may be characterised as distribution of profits.</td></tr>
</table>

Sl. No.	Instrument and its key features	Extant RBI Guidelines	Suggested Accounting Classification
	subordinated debt, depositors and general creditors		
2.	*Perpetual Non Cumulative Preference Shares (PNCPS) as Additional Tier 1 Capital* (a) No put option but Call option after 5 years at the option of the issuer only (b) Non-cumulative (c) Full discretion for banks at all times to cancel distributions; dividend stoppers permitted but it must not impede the full discretion that bank must have at all times to cancel distributions/payments (d) Loss absorption features: i) Pre-specified trigger (6.125% of RWA) through conversion or write-down (temporary or permanent) ii) conversion/write-down mechanism which allocates losses to these instruments must generate common equity Tier 1 under applicable accounting standards iii) Point of Non-Viability Trigger also at the option of RBI to be converted into common equity or fully and permanently written off (e) Claims are superior to the claims of investors in equity shares and subordinated to the claims of PDIs, and all Tier 2 capital instruments, depositors and general creditors	PNCPS will be classified as capital and shown under Schedule1-Capital of the Balance Sheet (Annexure 3 of Master Circular Basel III Capital Regulations, dated July 1, 2015)	For Perpetual Non Cumulative Preference Shares (PNCPS), the suggested accounting classification would be similar to the analysis in Sr. No. 1 above

Sl. No.	Instrument and its key features	Extant RBI Guidelines	Suggested Accounting Classification
3.	*Debt instruments qualifying as Tier II Capital* (a) Stated maturity – minimum period of 5 years and no step-ups and other incentives to redeem, (b) All instances of non-payment of coupons to be notified to the Reserve Bank (c) No put option but Call option only after minimum period 5 years (d) Mandatory stated coupon – fixed or market determined but no credit sensitive feature (e) Loss Absorption: i) such instruments, at the option of the RBI, will be either written off or converted into common equity upon occurrence of the trigger event, called the Point of Non-Viability (PONV) ii) PONV trigger event is the earlier of: iii) a decision that a conversion or write-off without which the firm would become non-viable is necessary, as determined by the RBI and iv) the decision to make a public sector injection of capital or equivalent support, without which the firm would become non-viable, as determined by the Competent Authority (f) No discretionary feature	The amount raised by way of issue of Tier 2 debt capital instrument is classified under 'Schedule 4 - Borrowings' in the Balance Sheet. (Annexure 5 of Master Circular Basel III Capital Regulations dated July 1, 2015)	As these instruments have a stated contractual maturity and a coupon; they meet the criteria of paragraph 16(a)(i) of Ind AS 32 for liability classification . The loss absorption feature would not be an embedded derivative as it has a non-financial underlying variable that is specific to a party to the contract. (refer definition of derivative in Appendix A of Ind AS 109)

Sl. No.	Instrument and its key features	Extant RBI Guidelines	Suggested Accounting Classification
4.	*Perpetual Cumulative Preference Shares (PCPS) / Redeemable Non Cumulative Preference Shares(RNCPS) / Redeemable Cumulative Preference Shares (RCPS) – qualifying for Tier II capital* (a) Stated maturity – minimum period of 5 years and no step-ups and other incentives to redeem, (b) All instances of non-payment of coupons to be notified to the Reserve Bank (c) No put option but Call option only after minimum period 5 years (d) Mandatory stated coupon – fixed or market determined but no credit sensitive feature (e) Loss Absorption: i) such instruments, at the option of the RBI, will be either written off or converted into common equity upon occurrence of the trigger event, called the Point of Non-Viability (PONV) ii) PONV trigger event is the earlier of: iii) a decision that a conversion or write-off without which the firm would become non-viable is necessary, as determined by the RBI and iv) the decision to make a public sector injection of capital or equivalent support, without which the firm would become non-viable, as determined by the Competent	These instruments will be classified as 'Borrowings' under Schedule 4 of the Balance Sheet (Annexure 6 of Master Circular Basel III Capital Regulations dated July 1, 2015)	As Perpetual Cumulative Preference Shares have no stated maturity but stated mandatory coupons, if they are issued at market rates, they will be compound instruments but have no allocation to equity. Hence all proceeds would be reflected as liability in terms of paragraph 28 and 29 of Ind AS 32. For Redeemable Non-Cumulative Preference Shares and Redeemable Cumulative Preference Shares, given the stated mandatory coupon and the fixed redemption / maturity date, such instruments will be reflected fully as liabilities as per paragraph 16(a)(i) of Ind AS 32.

Sl. No.	Instrument and its key features	Extant RBI Guidelines	Suggested Accounting Classification
	Authority (f) No discretionary feature		

4. Hedge Accounting and Derivatives

4.1 Hedge Accounting formed Phase III of IASB's project to replace IFRS 9 in its entirety. The IASB has segregated the overall hedge accounting broadly into two components i.e. (a) general hedge accounting and (b) macro hedging. In November 2013, the IASB added to IFRS 9 a new hedge accounting model in respect of component (a) above. The new general hedge accounting model represents a substantial overhaul of hedge accounting model and corresponding disclosures that will enable entities to better reflect their risk management activities in their financial statements. However, as at May 2015, the prescriptions in relation to component (b) i.e. Macro Hedging are still a work in process and the IASB has issued in April 2014 a Discussion Paper titled 'Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging' with public comment period which ended on October 17, 2014. The Working Group therefore did not consider the discussion paper and its propositions as they have yet to be translated into an accounting standard even internationally and instead focussed on the interaction of current RBI prescriptions on derivatives and hedge accounting with Ind AS requirements contained in Ind AS 109.

4.2 In India, various derivatives instruments are permitted and regulated by different regulators, like Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and Forward Markets Commission (FMC). RBI is empowered to regulate the interest rate derivatives, foreign currency derivatives and credit derivatives[5]. Banks may undertake transactions in derivatives both as market makers as well as users for hedging their own underlying risks. Instructions on hedge and derivative accounting have invariably been incorporated by RBI into derivative product specific regulations issued over time resulting in derivative accounting requirements being product specific and therefore conceptually disconnected. In contrast, under Ind AS 109 all financial derivatives would necessarily be measured at

[5] *Comprehensive Guidelines on Derivatives*, Reserve Bank of India DBOD.No.BP.BC.86 /21.04.157/2006-07 dated April 20, 2007

fair value irrespective of the derivative type/ product. Further, under Ind AS 109, except for those derivatives which form part of an effective hedging relationship, gains and losses would be recognised in the profit and loss account.

4.3 The Working Group reviewed extant RBI instructions on derivatives and hedge accounting to identify potential issues with regard to the implementation of Ind AS. The recommendations of the Working Group are enumerated in the table below.

Sr. No.	RBI Instructions	Recommendation
1.	*Interest Rate Swaps and Forward Rate Agreements (RBI circular MPD.BC.187/07.01.279/1999-2000 dated July 7, 1999)* Transactions for hedging and market making purposes should be recorded separately. While transactions for market making purposes should be marked to market (at least at fortnightly intervals), those for hedging purposes could be accounted for on accrual basis. For valuation purposes, the respective boards should lay down an appropriate policy to reflect the fair value of the outstanding contracts. Interest Rate Swap which hedges interest bearing asset or liability should be accounted for on accrual basis except the swap designated with an asset or liability that is carried at market value or lower of cost or market value in the financial statements. In that case the swap should be marked to market with the resulting gain or loss recorded as an adjustment to the market value of designated asset or liability. Gains or losses on the termination of swaps should be recognised when the offsetting gain or loss is recognised on the designated asset or liability. Consequently, any gain or loss on the terminated swap would be deferred and recognised over the shorter of the remaining contractual life of the swap or the remaining life of the asset / liability.	The accounting treatment for IRS on accrual basis is not aligned with Ind AS 109 as all derivatives are categorised under FVTPL. Further, hedging requirements and the hedge accounting model of the RBI circular is not consistent with Ind AS 109. It is therefore suggested that the instructions pertaining to accounting in the referenced circular may be withdrawn.

Sr. No.	RBI Instructions	Recommendation
	Trading swaps should be marked to market with changes recorded in the income statement. Income and expenses relating to these swaps should be recognised on the settlement date. Fee should be recognised as immediate income or expenditure. Gains or losses on the termination of the swaps should be recorded as immediate income or expenses.	
2.	*Exchange Traded Interest Rate Derivatives* *(RBI circular IDMC.MSRD.4801/06.01.03/2002-03 dated June 3, 2003)* Till the issuance of a comprehensive Accounting Standard on financial instruments by the ICAI, Scheduled Commercial Banks(SCBs) and All-India Financial Institutions (AIFI) have been advised to follow the a Guidance Note on Accounting for Equity Index Futures issued by ICAI, *mutatis mutandis* for accounting of interest rate futures also. Further, the following norms are applicable (a) If the hedge is "highly effective", the gain or loss on the hedging instruments and hedged portfolio may be set off and net loss, if any, should be provided for and net gains if any, ignored for the purpose of Profit & Loss Account. (b) If the hedge is not found to be "highly effective" no set off will be allowed and the underlying securities will be marked to market as per the norms applicable to their respective investment category. (c) Trading position in futures is not allowed. However, a hedge may be temporarily rendered as not "highly effective". Under such circumstances, the relevant futures position will be deemed as a trading position. All deemed trading positions should be marked to market as a portfolio on a daily basis and losses should be provided for and gains, if any, should be ignored for the purpose of Profit & Loss Account. SCBs and AIFIs should strive to restore their hedge effectiveness at the earliest. (d) Any gains realized from closing out / settlement of	The accounting prescriptions contained in the RBI circular are not consistent with Ind AS 109. Ind AS 109, being based on IFRS 9 does not have bright lines for determining hedge effectiveness like IAS 39. Barring the recognition of unrealised gains on trading positions would also not be in consonance with Ind AS 109. Similarly the carry forward of realised gains as 'Other Liability' is not Ind AS 109 compliant. In light of the issuance of Ind AS 109, accounting instructions in the referenced circular may be withdrawn.

Sr. No.	RBI Instructions	Recommendation
	futures contracts cannot be taken to Profit & Loss account but carried forward as 'Other Liability' and utilized for meeting depreciation provisions on the investment portfolio. As per the aforementioned circular dated June 3, 2010, the hedge will be deemed to be "highly effective" if at inception and throughout the life of the hedge, changes in the marked to market value of the hedged items with reference to the marked to market value at the time of the hedging are "almost fully offset" by the changes in the marked to market value of the hedging instrument and the actual results are within a range of 80% to 125%. If changes in the marked to market values are outside the 80% -125% range, then the hedge would not be deemed to be highly effective	
3.	*Foreign Currency – Rupee Options* *(FEDAI circular SPL-24/ FC-Rupee Options/ 2003 dated May 29, 2003 read with RBI Master Circular on Risk Management and Inter-Bank Dealings dated July 1, 2015)* Detailed entries have been prescribed for recording premium received/ paid and gains/losses on revaluation.	The accounting entries specified may not be entirely compliant with Ind AS 109. The circular also does not cover situations where options are purchased for hedging purposes, in which case the entries specified may not be applicable. Further, in light of Ind AS 109, detailed prescriptions for a particular product may not be necessary and the RBI may consider withdrawing reference to the FEDAI circular.
4.	*Credit Default Swaps (CDS)* *(Based on (i) IDMD.PCD.No.5053/14.03.04/2010-11 dated May 23, 2011 and (ii) DBOD.BP.BC.No.61/21.06.203/2011-12 dated November 30, 2011)* The accounting norms applicable to CDS contracts shall be	Banks may be advised to comply with the requirements of Ind AS 109 for the purpose

Sr. No.	RBI Instructions	Recommendation
	on the lines indicated in the 'Accounting Standard AS-30 - Financial Instruments: Recognition and Measurement', 'AS-31, Financial Instruments: Presentation' and 'AS-32 on Disclosures' as approved by the ICAI. As the accounting standards on derivatives are still evolving, market participants, with the approval of their respective boards, shall adopt appropriate norms for accounting of CDS transactions which are in compliance with the Indian accounting standards and approved by the regulators from time to time.	of accounting for CDS.
5.	*Prudential Norms for Off-Balance Sheet Exposures of Banks (Based on (i) DBOD.No.BP.BC.31/21.04.157/2008-09 dated August 8, 2008; (ii) DBOD.No.BP.BC.57/21.04.157/2008-09 dated October 13, 2008 (iii) DBOD.No.BP.BC.28/21.04.157/2011-12 dated August 11, 2011 and (iv) DBOD.No.BP.BC.31/21.04.157/2012-13 dated July 23, 2012)* RBI instructions *inter-alia* specify income recognition and classification norms for derivative transactions.	The RBI instructions that deal with classification and income recognition may need to be reviewed in light of requirements of Ind AS 109.

4.4 Ind AS 109 requires the recognition and initial measurement of all derivatives on the Balance Sheet at fair value. Measurement of fair value as required under Ind AS would represent a refinement in current practices and may even be challenging in certain cases, representing substantial use of models based on unobservable inputs. In order to ensure consistent application across the banking industry, it is suggested that industry bodies such as FIMDA and FEDAI may devise standardised valuation methodologies.

4.5 Given that the hedge accounting requirements under Ind AS 109 may be complex as compared to present practices, banks need to ensure adequate skilling and coordination of their human resources engaged in risk management, treasury operations, valuation and accounting.

5. Fair Value Measurement

5.1 As the Indian banking sector moves towards reporting under converged International Financial Reporting Standards, one of the key issues facing the industry would be the application of fair value measurement, in view of the very nature of banking business and the preponderance of financial instruments on a bank's balance sheet. Challenges in migrating to fair value measurement arise on account of the absence of active markets for corporate bonds and loans, differences with extant RBI instructions and practices on valuation, absence of an established body of accredited valuers and lack of adequate historical experience in the use of fair values by banks.

5.2 In deliberating its recommendation with respect to Fair Value Measurement, the Working Group was guided by the following objectives:

(a) Valuation in accordance with the accounting standards and international best practices with departures only in exceptional cases
(b) Transparency in the application of the valuation methodology and the inputs to the valuation process
(c) Valuation to be determined on an independent and objective basis
(d) Consistency in valuation of identical or similar instruments and
(e) Ease of regulatory supervision

5.3 The Working Group also deliberated on the need for providing guidance on fair value measurement on foreign exchange assets and liabilities. However, since (a) there are no detailed regulatory guidelines specifying the valuation methodology of foreign exchange assets and liabilities as in the case of investments, (b) foreign exchange markets are generally more active as compared to domestic fixed income markets and (c) extant instructions require banks to have valuation methodologies in place for exotic products, the Working Group did not find it necessary to cover the fair valuation of financial instruments denominated in foreign currencies.

5.4 Based on the aforementioned objectives, the broad recommendations of the Working Group are as under:

(a) In cases where quoted prices are available on active markets, fair value measurement may be carried out on this basis without the need for any regulatory guidance on the matter.

(b) In cases where quoted prices are not available but there are sufficient market observable inputs available, an independent agency such as FIMMDA may develop the mechanisms to provide valuations for various instruments, taking into account the requirements of Ind AS 113. The use of an independent agency specifying the valuation would provide guidance to market participants as well as facilitate consistent application across the banking industry. In order to improve credibility of such a methodology, the assumptions and basis for the unobservable inputs should be published in a transparent manner.

(c) In certain cases involving complex and highly illiquid instruments, it may be necessary to have valuations certified by an external valuer/ expert.

(d) In the limited cases of unquoted and untraded instruments, for which data for valuation is neither reliable, nor adequate or timely, a regulatory override requiring these instruments to be carried at cost adjusted for impairment may be considered. Alternatively, instead of a carve out, RBI may consider other measures such as reviewing its limits on investments in unlisted non-SLR securities to address regulatory concerns pertaining to valuation.

(e) Certain extant RBI guidelines do not appear to be consistent with the requirements of Ind AS 113 and may need to reviewed/ modified or withdrawn.

5.5 Comparison with extant RBI Guidelines

5.5.1 At present in the banking sector, with the exception of investments, other balance sheet items such as advances, borrowings, etc. are not subjected to mark to market requirements. Commercial banks in India are governed by the RBI instructions on matters relating to prudential norms for classification, valuation and operation of investment portfolio which are consolidated in the Master Circular DBR No BP.BC.6/21.04.141/2015-16dated July 1, 2015.

5.5.2 The Working Group determined the types of instruments, which required fair value measurement followed by a review of the extant instructions and guidelines issued by RBI juxtaposed with the requirements of Ind AS 113-Fair Value Measurement and Ind AS 109 and assessed whether the extant RBI guidelines were consistent with Ind AS principles and whether additional guidance from the regulator or valuations from an independent agency such as the Fixed Income Money Market and Derivatives Association of India (FIMMDA) is required to ensure a consistent application of Ind AS across the banking industry. A review of an instrument-wise analysis on the above lines along with the Working Group's recommendations/views is given in Annex IV.

5.6 Role of FIMMDA

5.6.1 The Working Group noted that in the absence of an established body of accredited valuers in India and lack of adequate historical experience in the use of fair values by banks, the possibility of bias and inconsistencies in valuation of instruments which are not quoted and traded in active markets cannot be effectively eliminated unless the valuations are based on values provided by an independent agency. In such cases, the Working Group recommends values to be provided by FIMMDA as besides meeting the objectives in paragraph 5.2 above, the credibility of such a valuation would be significantly enhanced.

5.7 Illiquid/ Complex/ Structured instruments

5.7.1 In certain cases involving highly illiquid or complex/ structured instruments, the Working Group recommends valuation by independent external valuers/ experts. Banks may rely on valuations determined by themselves internally based on sound and established internal systems with the approval of their Board of Directors provided, however, that a valuation of such instruments is carried out by an independent external valuer/expert at intervals not exceeding 12 months.

5.8 Unquoted Equity Instruments

5.8.1 For investments in subsidiaries, jointly ventures and associates, the Working Group recommends valuation at cost subject to testing for impairment. This is consistent with the principles of Ind AS 27 which provides an option of accounting for investments in subsidiaries, joint ventures and associates either at cost or in accordance with Ind AS 109, in the separate financial statements of the parent entity.

5.8.2 In respect of other equity instruments (not quoted or traded) where data for valuation is neither reliable, nor adequate or timely one view was that that such instruments should be valued at carrying cost and subjected to testing for impairment. This would be a regulatory override to the principles of the accounting standards. However, an alternate view was that a carve out may be avoided and instead regulatory concerns could be addressed through other measures including limiting[6] the extent of such investments, imposing additional capital requirements, etc. The RBI may take a final decision on the matter.

[6] In terms of extant RBI instructions also, banks investment in unlisted non-SLR securities should not exceed 10 per cent of its total investment in non-SLR securities as on March 31, of the previous year.

6. Impairment of Financial Assets

6.1 Given the business of banking, ensuring that the recoverable value of impaired financial assets is properly reflected and such financial assets are adequately provided for is of critical importance. One of the lessons of the financial crisis was that the pre-crisis accounting model for impairment waited for the impairment to be incurred before requiring a loss allowance thereon and was criticised for being a *"too little, too late"* approach. In order to address this issue, as a part of its project to replace IAS 39, the IASB developed a forward looking "expected credit loss" (ECL) framework for recognising impairment on financial assets. Unlike IAS 39, where an entity only considers those losses that arise from past events and current conditions, IFRS 9 broadens the spectrum by requiring an entity to base its measurement of expected credit losses on reasonable and supportable information that is available without undue cost or effort, and that includes historical, current and forecast information. The IFRS 9 ECL requirements, which have been incorporated without any significant change in Ind AS 109, also represents a paradigm shift from current practice in the Indian banking industry which follows income recognition, asset classification and provisioning (IRACP) norms prescribed by the Reserve Bank.

6.2 The IFRS 9 ECL requirements are applicable to all financial assets classified under amortised cost, FVOCI, lease receivables, trade receivables, commitments to lend money and financial guarantee contracts. Initially, on origination or purchase of a financial instrument, 12-month[7] expected credit losses are recognised in profit or loss and a loss allowance is established (Stage 1). Subsequently, if the credit risk increases significantly and the

[7] 12-month expected credit losses are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. It is not the expected cash shortfalls over the next twelve months—instead, it is the effect of the entire credit loss on an asset weighted by the probability that this loss will occur in the next 12 months. It is also not the credit losses on assets that are forecast to actually default in the next 12 months. If an entity can identify such assets or a portfolio of such assets that are expected to have increased significantly in credit risk, lifetime expected credit losses are recognised.

resulting credit quality is not considered to be low credit risk, full lifetime[8] expected credit losses are recognised (Stage 2). Once the credit risk of a financial asset increases to the point that it is considered credit-impaired, interest revenue is calculated after netting the impairment allowance from the gross carrying amount (Stage 3). However, in the case of purchased or originated credit-impaired financial assets, an entity shall only recognise the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance.

6.3 In contrast, under the extant IRACP norms, the provisioning is based on objective criteria fixed by the RBI, which are predominantly based on the days past due concept ("90 day norm") that ensures consistent application across the banking system. The provisioning requirements are based on the period for which the asset has remained non-performing and the security available. As a prudent measure to build a cushion against the build-up of non-performing assets (NPA), the RBI has also prescribed a provision on standard assets, which is broadly based on the principle of expected loss provisioning. Further, as a macro-prudential tool, the RBI prescribed[9] the maintenance of a provisioning coverage ratio (PCR) of 70 per cent with reference to the gross NPA position as at September 30, 2010 with the surplus of the PCR provisions over actual requirements to be used as a counter-cyclical provisioning buffer that the RBI could allow banks to draw upon during periods of system wide downturn. In March 2012, the RBI released a *'Discussion Paper on Introduction of Dynamic Loan Loss Provisioning Framework for Banks in India'* which provided a broad framework to compute expected loss provisioning based on the industry average for some select asset classes. Subsequently, vide its circular dated February 7, 2014 the RBI advised banks to develop necessary capabilities

[8] Lifetime expected credit losses are an expected present value measure of losses that arise if a borrower defaults on their obligation throughout the life of the financial instrument. They are the weighted average credit losses with the probability of default as the weight. Because expected credit losses consider the amount and timing of payments, a credit loss (ie cash shortfall) arises even if the entity expects to be paid in full but later than when contractually due.

[9] RBI circular DBOD.No.BP.BC.87/21.04.048/2010-11 dated April 21, 2011

to compute their long term average annual expected loss for different asset classes, for switching over to the dynamic provisioning framework.

6.4 The transition from a rule based regulator specified criteria approach that ensures consistency of application across the system to an ECL framework that is largely subjective based on management judgement, is data intensive, necessitates fairly sophisticated credit modelling skills and represents an enormous challenge not only for banks but also for auditors, regulators and supervisors. Although certain banks have applied to migrate to the Internal Ratings Based (IRB)[10] approaches for measuring capital charge on credit risk under the Basel norms, no bank has yet been granted permission by the RBI to adopt these. Regulatory validation exercise is in progress in respect of the IRB applicant banks. Thus, the Working Group considered several alternative approaches and deliberated on the advantages and disadvantages of each of them. The alternatives considered and the views arrived by the Working Group on each of them are briefly enumerated as under:

A. *Implementing Ind AS 109 without its impairment requirements*

In consultation with the GoI, RBI could consider exempting banks from the impairment requirements of Ind AS 109, while continuing with the extant IRACP norms of the RBI. However, this would represent a significant carve out from IFRS and the benefits of converging with global standards may be lost.

B. *Prior RBI approval for applying Ind AS 109 impairment requirements*

[10] The Basel II framework for capital adequacy purposes permits banks a choice between two broad methodologies for calculating their capital requirements for credit risk. One alternative, the Standardised Approach, is to measure credit risk in a uniform manner, supported by external credit assessments. The other alternative, the Internal Ratings-based Approach, which is subject to the explicit approval of the bank's supervisor, is to allow banks to use their internal rating systems for credit risk. The IRB approach, further sub-divided into the foundation IRB and advanced IRB, is based on measures of unexpected losses (UL) and expected losses (EL). The RBI vide its circular dated December 22, 2011 had invited applications from banks for implementation of IRB approaches, with initial self assessments to be submitted by June 30, 2012.

In order to allow banks that have developed capabilities in credit risk modelling a full Ind AS implementation, the RBI may consider allowing banks to implement the impairment requirements of Ind AS 109 on a case by case basis. However, this would result in a lack of consistency and comparability across the banking sector with some banks on full Ind AS while others on Ind AS with a carve out for impairment provisions. It would also involve significant supervisory challenges in running two different supervisory systems, especially off-site surveillance systems, in parallel.

C. *Using RBI IRACP norms as a prudential floor*

The extant IRACP norms have stood the test of time and served the banking system well. In order to facilitate a full migration to Ind AS as well as ensure regulatory comfort with the provisioning for impairment, the RBI could consider prescribing the current IRACP norms with suitable modifications[11] as a prudential floor. Where impairment requirements as per the banks' own ECL models are lower than the prudential floor, banks may be required to appropriate the differential amount to a prudential reserve, below the line. Any subsequent withdrawals from such a prudential reserve would require prior RBI approval.

D. *RBI specified ECL model/ minimum requirements*

In order to ensure consistency of application across the banking industry, the RBI may consider prescribing an ECL model to be used across the banking industry. While an RBI specified ECL model may not be entirely compliant with Ind AS 109, the RBI could also specify minimum requirements for ECL models to be used by banks in a manner that such requirements while imposing a rule based framework over the principles of Ind AS 109 do not violate the spirit of the standard.

[11] It may be noted that there are several differences between the existing IRACP framework and the Ind AS framework. For instance, provisions are based on outstanding amount whereas under Ind AS the carrying amount would be based on amortised cost. Similarly, after an asset becomes an NPA under IRACP norms, no income is recognized whereas under Ind AS, income would be recognized on the EIR basis for credit impaired assets, albeit after the gross amortised cost carrying amount is reduced by the impairment allowance.

E. *Full compliance with the requirements of Ind AS 109*

Full compliance with Ind AS 109 may give the benefits of being on a framework converged with global standards. However, the issues here are lack of implementation experience even globally, data availability and data quality issues, requirement of estimation and modelling skills for banks and the resultant challenges for supervisors and auditors as well as the lack of consistency across the banks.

6.5 Another challenge in implementation of the impairment model of Ind AS 109 would be its impact on capital. It is presumed that an expected credit loss model would require substantially higher provisioning than an incurred credit loss model currently followed. Thus, the transition to Ind AS would entail a substantial impact to the opening balance of retained earnings and consequently to capital on this account. Given, the preliminary stage and preparation of banks towards Ind AS at the time of preparing this report, the Working Group could not estimate the impact. However, at a later stage, the RBI may need to consider this aspect and the possibility of a regulatory forbearance for capital adequacy purposes while transitioning to Ind AS.

6.6 While the Working Group was of the view that Alternative C was the preferred approach, RBI may take a final view on the matter. The Working Group considered at length potential issues that could arise in the course of implementation of the impairment requirements of Ind AS 109. These are briefly summarised along with the Working Group's recommendations in the table below.

Sr. No.	**Issue**	**Recommendation**
1.	*Movement from Stage 1: 12 month expected losses to Stage 2: Lifetime Expected Losses* In terms of Ind AS 109, at each reporting date, an entity is required to assess whether the credit risk on a financial instrument has increased significantly	The Application Guidance to Ind AS 109 vide paragraph B5.5.17 provides a non-exhaustive list of information that may be relevant in assessing changes in credit

Sr. No.	Issue	Recommendation
	since initial recognition. Further, regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The correct determination of the point when increase in credit risk becomes significant is critical since a delay in this recognition can lead to substantial under provisioning.	risk. This list includes actual or expected significant changes in the financial instrument's external credit rating as well as actual or expected internal credit rating downgrade. However, objective criteria that can be applied across the banking sector are not specified. It is therefore suggested that the RBI could prescribe rule based indicative criteria for significant deterioration in credit risk. Such criteria could be built upon extant Framework for Revitalising Distressed Assets in the Economy wherein accounts are classified as Special Mention Accounts (SMA) 0, SMA-1 and SMA-2 based on overdue interest or principal for 30 days, 31-60 days and 61-90 days respectively. Accounts in SMA-1 and SMA-2 would also have met the criteria of "30 days past due" specified in the standard.
2.	*Rebuttable presumption of 30 days 'past due' for determining significant increase in credit risk* As per Ind AS 109, regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. During the course of discussions, some bankers expressed the concern that due to the prevalent 90 day norms for classification of an account as	The Application Guidance to Ind AS 109 provides that an entity can rebut the presumption of significant increase in credit risk when contractual payments become more than 30 days past due only when it has reasonable and supportable information available that demonstrates that even if contractual payments become more than 30 days past due, this does not represent a significant increase in the credit risk of a financial instrument. Ind

Sr. No.	Issue	Recommendation
	NPA and the lack of substantial penalty for delayed payments, borrowers, who otherwise have satisfactory accounts very often do make payments after 30 days but before turning NPA. Rebutting the presumption in each individual case may be time consuming.	AS 109 gives the example of an entity having access to historical evidence that demonstrates that there is no correlation between significant increases in the risk of a default occurring and financial assets on which payments are more than 30 days past due, but that evidence does identify such a correlation when payments are more than 60 days past due. Some members of the Working Group were of the view that looking at the behavioural pattern and credit culture in India, 30 days delay is quite common, even in cases where the borrower is comfortable and shows no signs of stress. The Working Group deliberated on the issue of considering a 60 day threshold period initially for "significant increases in credit risk", which will also be consistent with the SMA -2 threshold. This could be phased down to 30 DPD over a 2-3 year period based on banks individual estimates. However, it was noted by the Working Group that it is expected that even the 30 DPD criterion has to be supported with analysis clearly evidencing that 30 days past due is not correlated with a significant increase in credit risk. Besides, the implementation of 30 day norm of Ind AS 109 may facilitate better repayment discipline as well as strengthen credit risk management. Banks may take this opportunity to educate their customers about the importance to making contractual payments within 30 days of

Sr. No.	Issue	Recommendation
		due dates. Further, banks may also consider imposing higher penalties for delays in payments beyond 30 days. Banks need to work on historical data of DPD status and subsequent recoveries/slippages to rebut the 30-day presumption and arrive at the alternate threshold period.
3.	*Definition of default* Ind AS 109 states that when defining default for the purposes of determining the risk of a default occurring, an entity shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes shall be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument. The issue for consideration is whether the 90-day criteria for default is acceptable and that for the purpose of consistency the RBI should define default.	The 90 day threshold is consistent with the IRB approach under the Basel framework as well as with the extant RBI guidelines, except for agricultural loans, where the current RBI thresholds of defaults are different from 90-days. It is suggested that RBI may continue to define default for consistency across the banking system keeping in view the Basel framework as well as the Ind AS 109 prescriptions. Banks may be permitted the discretion to formulate more stringent standards. It may be noted that Ind AS 109 envisages other types of defaults, e.g., breach of covenants, which are not accompanied by payment defaults. With respect to such defaults (not accompanied by payment defaults), banks will need to build up adequate records to evidence the impact of these events on the level of credit risk and if these events constitute a significant increase in credit risk.

Sr. No.	Issue	Recommendation
4.	*Estimation of 12 month expected credit losses* As per Ind AS 109, if at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall continue to measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. The issue here is that the historical behaviour data is currently limited and as such whether it is possible for all the banks to estimate such losses in accordance with the provisions of the standard.	The RBI vide its circular DBOD.No.BP.520/21.04.103/2002-03 dated October 12, 2002 had issued a Guidance Note on Credit Risk Management that *inter-alia* advised banks to adopt credit risk models depending on their size, complexity, risk bearing capacity and risk appetite, etc. It also laid down the following minimum criteria for such models to achieve: (a) Result in differentiating the degree of credit risk in different credit exposures of a bank. (b) Identify concentration in the portfolios (c) Identify problem credits before they become NPAs (d) Identify adequacy/inadequacy of loan provisions (e) Help in pricing of credit (f) Recognise variations in macro-economic factors and a possible impact under alternative scenarios (g) Determine the impact on profitability of transactions and relationship Given that RBI instructions on credit risk management covering a rating and modelling framework have been in place for over a decade and banks have also applied for implementation of IRB approaches under Basel norms, it is reasonably expected that banks should be able to put in place at least some basic measures of expected credit losses.

Sr. No.	Issue	Recommendation
5.	*Estimation of lifetime expected credit losses* Given that even the IRB approaches under the Basel framework use only 12 month probabilities of default (PD) and not lifetime PDs, estimating lifetime expected credit losses may be challenging.	At least initially, till such time as data for generating lifetime PDs is available, banks may explore using statistical techniques and methods to convert 12 month PDs into lifetime PDs.
6.	*Internal ratings based approaches* Do banks have to use the IRB approaches to estimate credit losses?	It may be noted that Ind AS 109 does not mandate the use of a framework akin to the Basel IRB framework and entities have the discretion to build their own models for estimation of expected credit losses consistent with the largely principle based requirements of the standard. In respect of banks desirous of moving to IRB approaches, RBI instructions on *Implementation of the Internal Rating Based (IRB) Approaches for Calculation of Capital Charge for Credit Risk* issued vide circular DBOD.No.BP.BC.67/21.06.202/2011-12 dated December 22, 2011 may also be pertinent. In terms of the aforementioned circular *"Internal ratings and default and loss estimates must play an essential role in the credit approval, risk management, internal capital allocations, and corporate governance functions of banks using the IRB approach. Ratings systems and estimates designed and implemented exclusively for the purpose of qualifying for the IRB approach and used only to provide IRB inputs are not acceptable. It is recognised that banks will not necessarily*

Sr. No.	Issue	Recommendation
		be using exactly the same estimates for both IRB and all internal purposes. For example, pricing models are likely to use PDs and LGDs relevant to the life of the asset. Where there are such differences, a bank must document them and demonstrate their reasonableness to the RBI." The intention of these instructions is perhaps to avoid scenarios where banks use an IRB approach merely to compute capital and not to manage risk. Thus, for banks, especially those that are desirous of migrating to Basel IRB approaches it may be efficient, though not imperative, to build upon the Basel IRB approach suitably modified to comply with Ind AS 109.
7.	*Low credit risk exemption* As per Ind AS 109, an entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. In other words, entities have an option not to assess whether credit risk has increased significantly since initial recognition for "low credit risk exposures". In terms of Ind AS 109, credit risk is considered to be low if the risk of default is low, borrower has strong capacity to meet its contractual cash obligations in near term and adverse changes in economic and business conditions in the longer term may but will not necessarily reduce	As per the Application Guidance to Ind AS 109, to determine whether a financial instrument has low credit risk, an entity may use its internal credit risk ratings or other methodologies that are consistent with a globally understood definition of low credit risk and that consider the risks and the type of financial instruments that are being assessed. An external rating of 'investment grade' is an example of a financial instrument that may be considered as having low credit risk. However, financial instruments are not required to be externally rated to be considered to have low credit risk. They should, however, be considered to have low credit risk from a market participant

Sr. No.	Issue	Recommendation
	borrower's ability to fulfil its obligations. The issue for consideration is which type of instruments can be considered to have 'low credit risk', keeping in view the requirements of the standard.	perspective taking into account all of the terms and conditions of the financial instrument. The Working Group discussed the issue as to whether financial instruments which have the best credit rating (say AAA or AA), and where the stability of ratings is high (say more than 95 per cent), can be considered to have low credit risk. While recognising that this could indeed be the case, the Working Group refrained from any prescriptive recommendations in this regard. The Group was of the view that although the use of low credit risk exemption is provided as an option in Ind AS 109, use of this judgement is merely an operational simplification that should not be used by banks liberally since it would reflect a low-quality implementation of the standard. Even if the bank assigns a 'low credit risk' rating (its best rating) to an exposure, it is still expected to assess whether credit risk has increased significantly and continue to assess those exposures for changes in credit risk and recognise changes in 12 month ECL through provisions. The Working Group was of the view that this 'low credit risk' exemption would be used by banks only in rare circumstances. The Group also deliberated as to what could be the categories of exposures across banks in our jurisdiction which could qualify for the "low credit risk "exemption in the standard.

Sr. No.	Issue	Recommendation
		Keeping in view the rationale given in the standard, investments in rupee denominated SLR securities and central government guaranteed advances could be considered as low credit risk.
8.	*Application of impairment requirements to financial guarantees and loan commitments* Ind AS 109 requires that its impairment provisions are also applied to loan commitments and financial guarantees. This would *inter-alia* entail estimating the draw downs on loan commitments or cash shortfalls [12] for financial guarantee contracts.	Initially banks, especially those that have applied for IRB, could consider using FIRB prescribed credit conversion factors (CCFs) to arrive at the estimated exposure at default. RBI could also consider advising CCFs based on industry estimates. However, banks should develop their own estimates of CCFs in due course.
9.	*Transitional requirements of Ind AS 109* As per Ind AS 109, an entity shall apply the impairment requirements retrospectively. At the date of initial application, an entity shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that a financial instrument was initially recognised. The issue for consideration is that the extensive historical data that is required for this is not likely to be available. This is especially true in the case of Revolving credit facilities such as cash credit, credit	It is suggested that a rebuttable presumption may be made that the loans which are classified as SMA 1 and SMA 2 on the transition date may be considered as having significant increase in credit risk since initial recognition.

[12] In financial guarantees, cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity expects to receive from the holder, the debtor or any other party.

Sr. No.	Issue	Recommendation
	cards or bank overdrafts, can have a life of many years, with balances being drawn and repaid (partly or fully) at short intervals. In such cases, if the date of initial recognition is considered to be the date on which agreement was signed with the customer, banks would need to compare current level of credit risk to a level that existed many years before to assess if credit risk has increased significantly.	
10.	*Extant guidelines on restructuring* Over time the RBI has issued detailed prudential guidelines on restructuring of advances by banks, which have been consolidated in its Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances. How does Ind AS address the issue of restructuring of advances?	Under Ind AS 109, restructured assets would generally fall into the category of modified financial assets. As per Ind AS 109, if contractual cash flows of a financial asset have been renegotiated or modified, banks should distinguish between a modification that results in derecognition and a modification that does not result in derecognition. If a modification results in derecognition, the modified asset is considered to be a new asset. The date of modification is treated as the date of initial recognition for impairment assessment. In such cases, it is suggested by the Working Group that banks and their auditors exercise caution to ensure that any change in risk is suitably factored in failing which an assessment of the fair value of the new financial asset being recognised may need to be made. Banks and auditors need to be careful as renegotiations and modifications in loan agreements could mask significant increases in credit risk,

Sr. No.	Issue	Recommendation
		resulting in underestimation of losses and delay in transfer to life time expected losses. If a modification does not result in derecognition, subsequent assessment of whether there has been a significant increase in credit risk is made by comparing the risk of default at the reporting date (based on modified contractual terms of the financial asset) with risk of default at initial recognition (based on original, unmodified contractual terms of the financial asset.). Care should be taken to guard against inappropriate movement for lifetime expected losses to 12 month expected credit losses.

7. Presentation of Financial Statements and Disclosure

7.1 The current financial reporting framework, is based on requirements of the Banking Regulation Act, 1949 (Section 29 read with the Third Schedule) (BR Act), supplemented by instructions issued by the Reserve Bank of India (RBI) from time to time and the Accounting Standards issued by the ICAI. These needed to be reviewed and updated in light of the implementation of Ind AS.

7.2 While considering the formats for the financial statements the Working Group reviewed the requirements of the key Ind AS, notified in February 2015, relating to presentation and disclosure viz. Ind AS 1: *Presentation of Financial Statements*, Ind AS 32: *Financial Instruments Presentation*, Ind AS 107: *Financial Instruments: Disclosure* and Ind AS 109 *Financial Instruments*.

7.3 The Working Group also reviewed international practices by considering the financial statements of some international banks incorporated in the European Union (EU). The EU region was considered, since publicly listed entities have been reporting their financial statements under IFRS (as adopted by EU) mandatorily since 2005. Based on this review various alternative presentation treatments were discussed. The Working Group also deliberated on the modalities of implementation. The Working Group had the benefit of reviewing the approach being followed for the draft of the Ind AS compliant Schedule III to Companies Act, 2013.

7.4 The Working Group did not consider certain issues for deliberation such as consolidated financial statements, interim financial statements and cash flow statements as it was of the view that these aspects would be covered by pronouncements of/ requirements prescribed by National Advisory Committee on Accounting Standards (NACAS), ICAI and the RBI as well as the National Financial Reporting Authority (NFRA) (when the same is constituted) from time to time. RBI may consider issuing instructions on these aspects, if required.

7.5 Review of International Practices

7.5.1 In order to assist with its recommendations, the annual reports and financial statements of certain banks viz. Barclays PLC, BNP Paribas, Deutsche Bank AG, HSBC Holdings PLC., Lloyds Banking Group, RBS Group, Standard Chartered PLC and UBS Group AG, incorporated and listed in the EU region were reviewed (refer Annex VIII). The review helped develop a better understanding of financial statements presented under IFRS as well as allowed comparisons of alternative presentations options provided under IAS1 and IFRS 7. Though the current financial statements of aforementioned entities are prepared under an IAS 39 environment which will be eventually be replaced by IFRS 9, it was observed that many of presentation and disclosures practices will be useful even under an IFRS 9 scenario.

Titles of financial statements and OCI

7.5.2 In respect of the titles of the financial statements wherein paragraph 10 of IAS 1 provides flexibility in nomenclatures, all banks reviewed used the term Balance Sheet instead of Statement of Financial Position. With the exception of one bank which used the term Profit and Loss Account, other banks used the term Income Statement. Further, in respect of the option, provided under paragraph 10A of IAS 1, to prepare either a single statement of profit or loss and OCI or two statements (one displaying components of profit and loss and a second one displaying components of OCI), all banks chose the latter. In all cases the order of presentation was the Income Statement followed by Statement of Comprehensive Income and Balance Sheet and other components of financial statements.

Classification of items

7.5.3 In respect of the statement of financial position, as per paragraph 60 of IAS 1, entities are required to present current and non-current assets, and current and non-current liabilities as separate classification, except when a presentation based on liquidity provides information that is reliable and more relevant, in which case an entity shall present assets and liabilities in order of liquidity. All banks preferred to use a presentation based on order of liquidity. Further, with the exception of two banks, all the other banks opted to show financial assets and financial liabilities on the face of Balance Sheet on a 'Mixed Approach' i.e. based on IAS 39 (IFRS 9 going forward) measurement categories as well as Asset type or class.

7.5.4 In respect of Income Statement and Statement of Comprehensive Income, paragraph 99 of IAS 1 allows entities to present analysis of expenses recognised in profit or loss using a classification based either on their nature or on their function. All banks had opted for a classification based on the nature rather than function. In respect of the options for presenting income tax effects on components of OCI under paragraph 90 and 91 of IAS1, four banks had reflected the tax component of items in OCI as a separate line item in the statement of comprehensive income itself, whereas three others had shown it separately for each component of OCI. One bank had disclosed the income tax component in the notes to account.

7.6 Recommendations

Formats

7.6.1 As a part of designing the formats, the Working Group considered several alternative approaches possible. Some of the key considerations, besides the Ind AS requirements, included the changes in the business of banking over the years through the introduction of new products, increase in off-balance sheet items, need for enhanced disclosure relating to impairment, extent of guidance to be given for presentation and disclosure, etc. During the course of deliberations particularly while reviewing the financial statements of banks based in the EU, the Working Group also arrived at the conclusion that minimum formats for financial statements need to be specified to promote comparability. Accordingly, the Working Group has suggested the formats as below:

(a) Balance Sheet[13], including statement of changes in equity (Annex I, Form A, to be prescribed under the Third Schedule to the BR Act)

(b) Profit and Loss Account (Annex I, Form B, to be prescribed under the Third Schedule to the BR Act)

(c) Notes (Annex II, to be prescribed by way of RBI circulars)

(d) Guidance for preparation of financial statements (Annex III, to be prescribed by way of RBI circulars)

Balance Sheet (including SOCE) and Profit and Loss Account

7.6.2 Detailed and prescriptive formats for the Third Schedule may not be compatible with an Ind AS scenario where there is emphasis on a principle-based approach as opposed to a rules based approach. Besides, presentation requirements may undergo changes as and when new Ind AS are introduced or existing ones amended. This process will require concurrent changes to the formats prescribed under the Third Schedule to the BR Act, which will have to be notified by the GoI and may not provide the flexibility and adaptability to changing requirements and regulatory prescriptions. It is therefore recommended that The Third Schedule to the BR Act may prescribe only the basic formats of the Balance Sheet (along with statement of changes in equity) and Profit and Loss Account. Formats of the Balance Sheet and Profit and Loss Account suggested by the group in this regard are contained in Annex I. The manner of presentation thereof and the basis for the recommendations thereof are detailed below

(a) The presentation order in the balance sheet of assets, liabilities and equity in the suggested formats is based on the concept that equity represents residual interests in the assets of the entity after deducting liabilities.

(b) Paragraph 60 of Ind AS 1 requires that entities present current and non-current assets, and current and non-current liabilities, as separate classifications in the. Balance Sheet except where a presentation

[13] While IAS 1 gives the option to individual entities to follow different terminology for the titles of financial statements, Ind AS 1 removes alternatives by giving one terminology to be used by all entities.

based on liquidity provides information that is reliable and more relevant. The Working Group recommends that in the case of the banking industry, given its nature of business which primarily involves financial instruments, the liquidity-based presentation would provide more reliable and relevant information.

(c) The Working Group also considered the issue of prescribing a format for a new component introduced by the Ind AS 1 i.e. Statement of Changes in Equity (SOCE). One alternative was to treat it as a matter of compliance with requirements of accounting standards like Cash Flow Statement and banks would have the discretion in the contents and structure of the format. However, it was observed that SOCE is a critical component of a set of financial statements and contains financial information about Capital, Reserves and Surplus, Profit and Loss Appropriation. Therefore, in order to provide consistency and comparability, the Working Group concluded that specific format be prescribed as part of the Third Schedule.

(d) Considering the nature of the business, the format of the profit and loss account has been designed in a manner to: (i) clearly identify and segregate net interest income and net fee/commission income, (ii) segregate trading income from other miscellaneous income, (iii) identify loan loss provisions and other credit risk related provisions separately from other provisions.

(e) With regard to preparation of Statement of Profit and Loss, IAS 1 provides an option to either (i) follow the single statement approach or (ii) follow the two statement approach. However, Ind AS 1 restricts this option to a single statement approach. Therefore the format suggested provides for a single statement.

(f) In respect of income tax disclosure under OCI, Ind AS provides the option of disclosing the amount of income tax relating to each component either in the statement itself or in the notes to accounts (paragraph 90). Further, components of OCI may be presented net of tax related effects or before related tax effects with one amount shown for the aggregate amount of income tax relating to those components (paragraph 91). In order to promote comparability, it was suggested that components of OCI be disclosed before tax related effects with a separate line item giving the aggregate amount of income tax relating to those components.

(g) In order to facilitate better understanding of the financial statements, a separate line item for 'Exceptional items' has been included in the format for Profit and Loss Account. Items included under this line item are those that are significant to an assessment of the financial performance and are exceptional on account of their size, nature and incidence. However, ICAI may be requested to develop educational material in respect of items that may be classified under this line item.

Cash Flow Statement

7.6.3 The Third Schedule to the BR Act does not prescribe or provide any format for the preparation of a cash flow statement. Currently, the preparation of cash flow statements is solely governed by the provisions of the accounting standards. The Working Group came to the conclusion that status quo may continue and banks may be guided by the requirements of the relevant accounting standards in the matter.

Notes

7.6.4 Currently, the Third Schedule to the BR Act prescribes sixteen schedules (Schedule 1 to 16), showing the break-up of line items in the Balance Sheet and Profit and Loss Account. The Working Group considered the need for prescribing formats for schedules and arrived at the conclusion that in the interests of flexibility and adaptability, these should not be prescribed as a part of the format in the Third Schedule. The sixteen schedules to the balance sheet and profit and loss account currently prescribed in the Third Schedule to the BR Act may not henceforth form part of the Third Schedule. These may be prescribed by way of regulatory guidelines of the RBI and referred to as Notes. This would give the required flexibility to add/change/delete line items as and when new Ind AS (IFRS)/ is introduced or existing ones revised without having to approach GoI repeatedly. The format of the Notes to the Balance Sheet and Profit and Loss Account, listed in Annex II can be issued by way of a RBI circular.

Guidance for preparation of financial statements

7.6.5 Since1992, when the formats were notified and detailed guidance was provided for the preparation thereof by way of RBI guidelines the banking industry has gained experience in implementing international best practices and prudential norms. Therefore, it may not be necessary to prescribe detailed guidance as in the past for the preparation of financial statements as may have been required in the pre-reform era. However, the Working Group has developed application guidance for the financial statement preparation by banks as per the revised formats in an Ind AS scenario for initial reference. This is detailed in Annex III.

Disclosures

7.6.6 With respect to disclosure requirements mandated by Ind AS, banking companies may themselves prepare suitable disclosures to ensure compliance.

Legal Aspects

7.6.7 Section 29(4) of the B R Act, empowers the Central Government to amend the form of the Balance Sheet and Profit and Loss Account as set out in the Third Schedule. It is recommended by the Working Group that the Central Government may consider delegating its power of amending the Third Schedule under section 29(4) to the Reserve Bank of India, on lines similar to the authority delegated to Insurance Regulatory and Development Authority[14].

[14] **Section 14 of IRDA Act 1999 :**

IRDA Act, 1999: Chapter IV

Section 14. DUTIES, POWERS AND FUNCTIONS OF AUTHORITY.

(1) Subject to the provisions of this Act and any other law for the time being in force, the Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.

(2) Without prejudice to the generality of the provisions contained in sub-section (1), the powers and functions of the Authority shall include, :

(j) specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries

8. Derecognition, Consolidation and Other Residuary Issues

8.1 In the course of deliberations with bankers and a review of extant RBI instructions, the Working Group identified areas where the extant instructions may not be consistent with Ind AS and may need to be reviewed or withdrawn. These recommendations are discussed under the following heads.

(a) Derecognition
(b) Consolidation
(c) Residuary issues

8.2 Derecognition

8.2.1 The Working Group reviewed the derecognition requirements of Ind AS 109, which were compared with derecognition requirements specified in some RBI guidelines, notably the guidelines on securitisation. While derecognition of financial liabilities is covered in paragraph 3.5 of this report, the key issues and recommendations with respect to derecognition of financial assets are given in the following table.

Sr. No.	Issue	Recommendations
1	Derecognition under Securitisation of Assets – *Derecognition criteria* Extant RBI guidelines[15] require 'true sale' criteria to be met to permit assets transferred under securitisation to be removed from the balance sheet of the originator. The guidelines provide for an illustrative list of conditions which should be met to consider a transfer to be a true sale including immediate legal separation, effective transfer of all risks/rewards and rights/obligations pertaining to the asset, cessation of originator's economic interest in the assets after its	RBI may consider aligning the accounting framework for derecognition with the principles of Ind AS109. In order to address its concerns as a regulator, RBI may consider using prudential tools/filters such as non-recognition of such profits in

[15] Guidelines on Securitisation of Standard Assets (DBOD.No.BP.BC.60/21.04.048/2005-06 dated February 1, 2006) , Revisions to the Guidelines on Transfer of Assets through Securitisation and Direct Assignment of Cash Flow (DBOD.No.BP.BC-103/21.04.177/2011-12 dated May 7, 2012)

Sr. No.	Issue	Recommendations
	sale, etc. Certain requirements of the RBI guidelines are more conservative than the derecognition requirements under Ind As. One instance is that RBI guidelines require the sale to be only on cash basis and the consideration to be received not later than at the time of transfer of assets to the SPV. Further, if the originator indulges in market making or dealing in the securities issued by the SPV it shall result in a violation of the true sale criteria. Ind AS109 does not specify such requirements implying that even where the sale is on a non-cash basis or subsequent trading is carried out in the financial assets sold, the assets would remain derecognised subject to the Ind AS 109 specified derecognition criteria. Therefore the more stringent requirements may result in situations wherein certain transactions may qualify for derecognition under Ind AS109 but not under RBI guidelines.	computation of regulatory capital as also for dividend distribution, etc.
2.	*Derecognition under Securitisation of Assets - Profit on transfer* As per the extant RBI guidelines any loss arising on account of the sale should be accounted accordingly and reflected in the Profit & Loss account for the period during which the sale is effected and any profit / premium arising on account of sale should be amortised over the life of the securities issued or to be issued by the SPV. The treatment specified in the RBI guidelines is asymmetric requiring immediate recognition of losses and deferred recognition of gains. However, Ind AS 109 provides that on derecognition of a financial asset the difference between the carrying amount measured at the date of derecognition and the consideration received shall be recognised in the profit or loss account.	Same as 1 above

Sr. No.	Issue	Recommendations
	Thus, the accounting framework specified in the extant RBI guidelines is inconsistent with the derecognition requirements of Ind AS 109.	
3.	*Sale of Non Performing Assets (NPA)* The guidelines pertaining to sale of NPAs issued from time to time have been consolidated in the Master Circular on '*Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances'* issued vide circular DBOD.No.BP.BC.2/21.04.048/2015-16 dated July 1, 2015 (paragraph 6 and 7). Certain aspects of these extant instructions, explained below, may not be in alignment with Ind AS 109. (a) Sales to Reconstruction Companies (RC)/ Securitisation Companies (SCs) under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) i. Sales are recognised at lower of (i) redemption value of the Security Receipts (SRs)/ Pass Through Certificates (PTCs) or (ii) the Net Book Value (NBV, i.e. book value less provisioning held). The investment should be carried in the books based on the price as determined above until its sale of realisation, at which time the loss or gain may be dealt with in a prescribed manner (refer (ii) and (iii) below). ii. For sales to RCs/SCs between February 26, 2014 and March 31, 2016, banks have been permitted to	The extant instructions provide for the deferment of recognition of gains / losses as well as the non-recognition of gains which would not be in alignment with Ind AS 109. The RBI may consider aligning its instructions with Ind AS 109. In order to address its concerns as a regulator, RBI may consider using prudential tools/filters such as non-recognition of such profits in computation of regulatory capital as also for dividend distribution, etc.

Sr. No.	Issue	Recommendations
	spread the shortfall between the sale value and the NBV, over a period of two years, subject to necessary disclosures in the notes to account in the annual financial statements. iii. Where the sale value is in excess of the NBV, banks can reverse excess provision only when cash is received (by way of initial consideration and/or redemption of Security Receipts (SRs)/ Pass Through Certificates (PTCs). (b) In the case of sales of NPAs, other than to RCs/SCs, the extant instructions provide that where the sale value is greater than the NBV, the excess provision should not be reversed, but shall be utilised to meet the shortfall/ loss on account of sale of other NPAs.	

8.3 Consolidation

8.3.1 The Banking Regulation Act, 1949 (BR Act) does not provide for consolidated financial statements. However, all banks coming under the purview of consolidated supervision of RBI, whether listed or unlisted are required to prepare and disclose Consolidated Financial Statements in addition to separate financial statements as per extant RBI guidelines.

8.3.2 The present RBI guidelines require all related entities of the bank to be consolidated with the parent on the lines prescribed in the various Accounting Standards issued by the ICAI viz. subsidiaries are consolidated on a line-by-line basis (AS 21), associates are consolidated by the equity method (AS 23) and joint ventures are consolidated by the proportionate consolidation method (AS 27). For the purpose, the terms 'parent', 'subsidiary', ‘associate’, ‘joint venture’, 'control' and 'group' have the same meaning as ascribed to them in the above accounting standards of the ICAI. For the purpose of consolidation, the investments in associates (other than those specifically excluded under AS 23) are accounted for under the "Equity Method" of accounting in accordance with AS 23. Investment in Regional Rural Banks (RRBs) sponsored by banks are treated as investments in associates for the purpose of consolidated financial Statements and accounted by “Equity Method” as prescribed under AS 23. The accounting of investments in subsidiaries which are not consolidated and associates which are excluded under AS 23, is as per the relevant valuation norms issued by Reserve Bank of India. Investments in joint ventures are to be accounted for using the ‘proportionate consolidation’ method as per AS 27 on “Investments in Joint ventures” issued by ICAI.

8.3.3 The standards issued by ICAI have been broadly based on the corresponding IFRS i.e. AS 21, AS 23 and AS 27 when issued, were based on IAS 27- Consolidated and Separate Financial Statements, IAS 28 – Investments in Associates and IAS 31-Interests in Joint Ventures respectively. However, in May 2011, the International Accounting Standards Board (IASB) issued IFRS 10: Consolidated Financial Statements which superseded the requirements of IAS 27 and SIC-12: Consolidation-Special Purpose Entities and is effective for accounting periods commencing on or after January 1, 2013. Further, along with IFRS 10, the IASB also issued IFRS 11: Joint Arrangements and IFRS 12: Disclosure of Interests in Other Entities. The Ministry of Corporate Affairs, Government of India, has notified Ind AS 28, Ind AS 110, Ind AS 111 and Ind AS 112 corresponding to IAS 28, IFRS 10, IFRS 11 and IFRS 12 after their formulation by the ICAI and review by the NACAS.

8.3.4 A key difference between AS 21 and Ind AS 110 relates to the definition of control. AS 21 defines control as the (i) ownership, directly or indirectly through subsidiary(ies) of more than one-half of the voting power of an enterprise or (ii) control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in the case of any other enterprise so as to obtain economic benefits from its activities. However, Ind AS 110 does not provide such bright lines. As per Ind AS 110, an investor controls an investee when the investor (a) has power over the investee, (b) is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to affect those returns through its power over the investee. Power is defined as existing rights that give the current ability to direct relevant activities, ie the activities that significantly affect the investee's returns.

8.3.5 Another key difference pertains to the scope of the standard. AS 21 provides certain exclusion from consolidation where a subsidiary is excluded from consolidation because control is intended to be temporary or the subsidiary operates under severe long term restrictions which significantly impair its ability to transfer funds to the parent. Ind AS 110, while providing scope exceptions in certain limited situations, does not provide a scope exclusion on the lines of AS 21 as discussed above.

8.3.6 Based on its deliberations, the Working Group arrived at the view that the differences between Ind AS 110 and AS 21 would affect all enterprises rather than the banking sector alone. The Working Group focussed on banking specific issues which may arise due to the extant RBI guidelines on the matter and the nature of the business of banking. These are discussed in the table below.

Sr. No.	Issue	Recommendation
1.	*Mandate for Consolidated Financial Statements* AS 21 does not mandate an enterprise to present consolidated financial statements. However, if an enterprise, due to any statutory or regulatory requirement, needs to present consolidated financial statements, it is required to comply with the requirements of AS 21. At present, as per extant RBI guidelines, consolidated financial statements are required to be prepared in addition to the solo financial statements. Statutorily, the B R	On account of the requirements of Ind AS 110, banks would be required to prepare consolidated financial statements. Additionally, in compliance with statutory requirements, separate financial statements would

Sr. No.	Issue	Recommendation
	Act,1949 does not provide for preparation of consolidated financial statements by banks. However, Ind AS110 requires that an entity (the parent) that controls one or more entities (subsidiaries) to present consolidated financial statements.	also be required.
2.	*Formats* Since AS 21 has not prescribed any format for publishing consolidated financial statements, the RBI has prescribed a format. The consolidated financial statements are in addition to the bank's separate financial statements prepared as per the formats prescribed under Section 29 of Banking Regulation Act, 1949. The format specified in the guidelines dated February 25, 2003 may be inconsistent with the requirements of Ind AS 110.	The Working Group on Presentation of Financial Statements and Disclosure has specified formats for standalone financial statements. In order to ensure consistent application across the banking industry, the RBI may consider prescribing formats for consolidated financial statements based on these formats with suitable modifications to include items arising on consolidation.
3.	*Scope* At present AS 21 provides certain exclusions from consolidation where a subsidiary is excluded from consolidation because control is intended to be temporary or the subsidiary operates under severe long term restrictions which significantly impair its ability to transfer funds to the parent. RBI guidelines[16] require that the Board of Directors of the bank should invariably record the intent of holding of the investment for a temporary period or otherwise at the time of investment in the subsidiary, associate or joint venture. In the absence of record of such intent by the Board at the time of such investment, the	The requirements of Ind AS 110 should be made applicable.

[16] Consolidated Financial Statements, DBOD.No.BP.BC.84/21.04.018/2007-08 dated May 21, 2008

Sr. No.	Issue	Recommendation
	same would be taken into account for the purpose of consolidation. Ind AS 110 does not provide such scope exclusions.	
4.	*Regional Rural Banks (RRBs)* In terms of extant RBI guidelines investments in RRBs should be treated as investments in associates for the purpose of consolidated supervision. RRBs are established in terms of the Regional Rural Banks Act, 1976. The Central Government, respective State Government and the Sponsor Bank hold shares in the ratio of 50%, 15% and 35% respectively. The management of the RRB is vested in its Board of Directors. The Chairman and two directors on its Board are appointed by the Sponsor Bank while the Central and State Governments nominate two members each. The RBI and National Bank for Agriculture and Rural Development (NABARD) nominate one member each.	The Working Group arrived at the conclusion that in terms of the existing structure, there is a rebuttable presumption that sponsor banks were in a position to exert significant influence (and not control) on RRBs in terms of Ind AS 28. Therefore, the existing RBI guidelines requiring RRBs to be treated as associates[17] may not be inconsistent with Ind AS requirements.
5.	*Investments in Joint Ventures* The extant RBI guidelines provide that investments in joint ventures should be accounted for under the 'proportionate consolidation' method as per AS 27. However, Ind AS 28 on Investments in Associates and Joint Ventures does not provide for 'proportionate consolidation' and instead requires that entity should use the 'equity method' for consolidation where it has joint control.	The requirements of the RBI guidelines on consolidation procedures for joint ventures need to be modified/ withdrawn since Ind AS111 does not provide for 'proportionate consolidation' method.

[17] At the time of finalizing the Working Report, RRB's were not envisaged to migrate to Ind AS. Consequently, while the sponsor banks would be on Ind AS, their sponsored RRBs would continue to be on existing Indian GAAP. In such a scenario, banks could consider using the exemption available under paragraph 35 of Ind AS 28 which provides *that "The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances unless, in case of an associate, it is impracticable to do so."*

Sr. No.	Issue	Recommendation
6.	*Differences in Accounting policies* AS 21 while specifying the requirement of uniform accounting policies while preparing consolidated financial statements, also provides that if it is not practicable to use uniform accounting policies the fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied. This practicability exemption is not available in Ind AS110 and requires that where a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies. Further, the RBI guidelines provide that if different entities in a group are governed by different accounting norms laid down by the concerned regulator for different businesses then, where banking is the dominant activity, accounting norms applicable to a bank should be used for consolidation purposes in respect of like transactions and other events in similar circumstances.	The RBI may consider withdrawing its guidelines. Where an entity has control and the power to direct relevant activities, it is presumed that it would be able to either ensure uniform accounting policies or be able to obtain necessary adjustments to ensure that the consolidation is based on uniform accounting policies.
7.	*Acquisition of voting power in satisfaction of advances* In terms of guidelines contained in RBI circular reference DBOD.No.BP.BC.89/21.04.018/2002-03 dated March 29, 2003 even though a bank may acquire more than 20% of the voting power in the borrower entity in satisfaction of its advances, it may be able to demonstrate that it does not have the power to exercise significant influence since the rights exercised are protective in nature and not	The Working Group arrived at the conclusion that this aspect may be additionally examined by preparers and auditors based on the circumstances of each case rather than based on a uniform regulatory

Sr. No.	Issue	Recommendation
	participative. In such circumstance banks may not treat such investments as investments in associates. Further, the guideline states that the test should not merely be the proportion of investment but the intention to acquire the power to exercise significant influence. As per IndAS 28, where an entity holds 20% or more of the voting power (directly or through subsidiaries) on an investee, it will be presumed the investor has significant influence unless it can be clearly demonstrated that this is not the case. If the holding is less than 20%, the entity will be presumed not to have significant influence unless such influence can be clearly demonstrated.	prescription. Therefore, RBI may consider amending this instruction.
8.	*Strategic Debt Restructuring* In terms of DBR. No. BP DBR.No.BP.BC.101/21.04.132/2014-15 dated June 8, 2015, provides that lending banks acting through a Joint Lenders Forum (JLF) should actively consider change in ownership in cases of restructuring of accounts where borrower companies are not able to come out of stress due to operational/ managerial inefficiencies despite substantial sacrifices made by the lending banks. In order to achieve the change in ownership, the lenders under the JLF should collectively become the majority shareholder by conversion of their dues from the borrower into equity. Further, in terms of the aforementioned circular as the lender acquires such voting power in the borrower entity in satisfaction of its advances under the SDR, and the rights exercised by the lenders are more protective in nature and not participative, such investment may not be treated as investment in associate. As per IndAS 28, where an entity holds 20% or more of the voting power (directly or through subsidiaries) on an investee, it will be presumed the investor has significant influence unless it can be clearly demonstrated that this is	The Working Group arrived at the conclusion that this aspect may be additionally examined by preparers and auditors based on the circumstances of each case rather than based on a uniform regulatory prescription. Therefore, RBI may consider amending this instruction.

Sr. No.	Issue	Recommendation
	not the case. If the holding is less than 20%, the entity will be presumed not to have significant influence unless such influence can be clearly demonstrated.	
9.	*Requirements of Ind AS 27 read with Ind AS110 – cases where an entity does not have a subsidiary but an investment in associate(s) and/ or joint venture(s)* Ind AS 27 provides that *"separate financial statements are those presented in addition to consolidated financial statements or in addition to <u>financial statements in which investments in associates or joint ventures are accounted for using the equity method.</u>"* It further provides that "*Financial statements in which the equity method is applied are not separate financial statements".* Ind AS110 defines consolidated financial statements as "*the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its <u>subsidiaries</u> are presented as those of a single economic entity "* i.e. consolidated financial statements are required where there are subsidiaries. Based on the above, in cases where an entity does not have a subsidiary but investments in associates and/ or joint ventures it is required to prepare financial statements where the associate and/ or joint venture are accounted for using the equity method. However, this requirement of preparing financial statements including associate(s) and/ or joint venture(s) using equity method where an entity does not have any subsidiaries, does not exist as per the extant RBI guidelines read with AS 21, AS 23 and 27.	In such instances banks may be guided by the requirements of Ind AS.
10.	*Consolidation of Mutual Funds, Venture Capital Funds, etc.* Several banks have subsidiaries which are Asset Management Companies (AMC) for mutual funds. In many cases, these AMCs can appoint a majority/ all the trustees of the trust managing the mutual fund. In a similar	It appears from a reading of Ind AS 110 that the exemption available for

Sr. No.	Issue	Recommendation
	scenario, banks also through their subsidiaries have venture capital investments. The issue for consideration is whether such investments through mutual funds, venture capital, etc. need to be consolidated under Ind AS 110.	investment entities is only available to the investment entity itself on account of paragraph 33 which states that *"A parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.* Therefore, where a bank through a mutual fund/ venture capital fund has control (as defined in Ind AS 110) of a particular entity the same may need to be consolidated.

8.4 Residuary Issues

8.4.1 In order to identify residuary issues, the Working Group carried out a review of the requirements of applicable Ind AS against relevant RBI guidelines to assess the differences and the impact thereof. Based on this review, the issues identified by the Working Group and its recommendations thereon are given in the table below.

Sr. No.	Issue	Recommendations
1	*Segment Reporting* With a view to adapt the disclosure format prescribed in Appendix III to AS17 to suit banks, RBI vide circular DBOD.No.BP.BC. BC. 81 /21.04.018/2006-07 dated April 18, 2007 advised banks to adopt a specified disclosure format. The format prescribed by RBI	RBI may consider withdrawing its instructions specifying the segments and disclosure formats and banks may follow the requirements

Sr. No.	Issue	Recommendations
	indicates the minimum disclosure requirements under Accounting Standard 17 and banks are allowed the discretion to enhance the disclosure levels. RBI has also specified the business segments as 'Treasury', 'Corporate/ Wholesale Banking', 'Retail Banking' and 'Other Banking Business'. An indicative list of items to be included under each category has been prescribed. The geographical segments will be domestic and international. Ind AS 108 requires operating segments to be identified inter-alia on the basis of operating results being reviewed by the entity's chief operating decision maker implying that the segments are to be decided by a bank on the basis of its internal MIS in the context of resource allocation decisions. A set of segments imposed by an external body such as a regulator may be inconsistent with the provisions of the standard.	of Ind AS 108 for segment reporting. However, keeping in view the opinion of some bankers that it would be in the interest of the banks for RBI to continue to specify segments, it is also recommended that RBI may, if it chooses to withdraw the instructions, like to clarify that the main segments generally observed for banks in India are Treasury', 'Corporate/ Wholesale Banking', 'Retail Banking' and 'Other Banking Business' as specified currently. This may give some indicative guidance for banks while not violating the spirit of the standard.
2.	*Accounting for Effects of changes in Foreign Exchange Rate-: Classification of Integral and non-integral operations* The current standard under Indian GAAP, AS 11: "*The Effects of Changes in Foreign Exchange Rates*" is based on the integral and non-integral foreign operations approach, i.e., the approach which was followed in the earlier IAS 21 (revised 1993) wherein foreign operations are to be categorised as integral and non-integral. An integral foreign operation carries on its business as if it were an extension of the enterprise and consequently changes in foreign exchange rate have an almost immediate effect on the reporting enterprise's cash flows from operations. In contrast, a non-integral foreign operation accumulates cash and other monetary items, incurs expenses,	Generally an entity such as representative offices of banks set up abroad that was previously classified as integral as per AS 11/extant RBI guidelines would have the same functional currency as the reporting entity under the provisions of Ind AS 21. In the case of non-integral operations as defined in AS 11/extant RBI guidelines (such as a subsidiary or

Sr. No.	Issue	Recommendations
	generates income and perhaps arranges borrowings, all substantially in the local currency (e.g. the foreign branch of an Indian bank). Thus when there is a change in exchange rate it does not affect the cash flow from operations of the reporting enterprise and instead affects the net investment in the foreign operations. Based on the above differentiation between the nature of integral and non-integral operations there is a difference in accounting treatment. In the case of integral operations the exchange difference is routed through the P&L whereas in the case of non-integral operations it is accumulated in a Foreign Currency Translation Reserve. The RBI vide its guidelines (DBOD No.BP.BC.76/21.04.018/2004-05 & 2005-06 dated March 15, 2005 and April 5, 2006), taking into consideration the operation of the foreign branches of Indian banks and the indicators listed in paragraph 20 of AS 11, advised that foreign branches of Indian banks would be classified as "non-integral foreign operations". Similarly, the guidelines provided that offshore Banking Units (OBUs) set up in India by banks would also be classified as "non-integral foreign operations" while representative offices of banks set up abroad would be classified as "integral foreign operations" for the limited purpose of compliance with AS 11. However, this approach explained above is different from the functional currency approach followed under Ind AS 21. Under the functional currency approach the entity first determines its functional currency and then translates all foreign currency items into the functional currency. The functional currency is the	branch or associate or Joint Venture of the bank abroad), the functional currency may be different from the reporting currency and it would involve a translation into the reporting entity's presentation currency in terms of Ind AS 21. RBI may need to consider withdrawing the current guidelines on classification of operations as integral or non-integral since it is not relevant in the context of Ind AS 21. Further, Ind AS 21 provides guidance on selection of the functional currency which may be supplemented by the ICAI in its educational material at a later stage if required.

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	currency of the primary economic environment in which the entity operates. Under Ind AS, there is no distinction between integral foreign operations and non-integral foreign operations. In fact an entity that was previously classified as integral foreign operation will have the same functional currency as the reporting entity. As per the standard, when a reporting entity prepares financial statements, each individual entity, included in the reporting entity – whether it is a standalone entity , an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary or branch)- is to determine its functional currency and measure the results and financial position in that currency. An entity is required to translate its results and financial position from its functional currency into a presentation currency using the specified method in the standard for translating a foreign operation for inclusion in the reporting entity's financial statements.	
3.	*Accounting for Effects of changes in Foreign Exchange Rate- Exchange rate for recording foreign currency transactions and translation to presentation currency -Rates used for translation* At initial recognition, Ind AS 21 (paragraph 21) requires that a foreign currency transaction shall be recorded, on initial recognition, in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. For practical reasons, the standard allows the use of a rate that approximates the actual rate at the date of the transaction. For example, an average rate for a week or a month may be used for all transactions in foreign currency occurring during	Apart from the reference to integral and non-integral operations, the RBI guidelines insofar as they pertain to guidance on which rate to use for recording foreign currency transactions and translating financial statements into presentation currency, are consistent with the requirements of IAS 21/Ind AS 21. Therefore they may

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	that period (paragraph22). Further, paragraph38 also states that when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented. Paragraph 39 states that while translating the results and financial position into the presentation currency: a.) the assets and liabilities for each statement of financial position presented (including comparatives) shall be translated at the closing rate at the date of that statement of financial position; b.) the incomes and expenses for each statement of comprehensive income (including comparatives) shall be translated at exchange rates at the dates of the transactions ; and c) all resulting exchange differences shall be recognised in OCI. Paragraph 40 states that In respect of translation into presentation currency, an average rate for the period, is often used to translate income and expense items. . However, Ind AS 21 states that if the exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate. The method for translation as per Ind AS 21 as stated above is almost similar to the current AS 11. In order to facilitate the implementation of AS-11, the RBI has provided the following guidance with respect to banks using average rates (a) In respect of Indian branches and integral foreign	continue in the interest of consistent application across the banking industry.

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	operations, which are currently not being recorded in Indian rupees at the date of the transaction or are being recorded using a notional exchange rate, foreign currency transactions may be recorded at the date of the transaction by using the weekly average closing rate of the preceding week, published by FEDAI, if the same approximates the actual rate at the date of the transaction. (b) Generally, Indian banks prepare the consolidated accounts for their domestic and foreign branches at quarterly or longer intervals. Hence, banks may use the quarterly average closing rate, published by FEDAI at the end of each quarter, for translating the income and expense items of non-integral foreign operations during the quarter. (c) If the weekly average closing rate of the preceding week does not approximate the actual rate at the date of the transaction, the closing rate at the date of the transaction should be used. For this purpose, the weekly average closing rate of the preceding week would not be considered approximating the actual rate at the date of the transaction if the difference between (i) the weekly average closing rate of the preceding week and (ii) the exchange rate prevailing at the date of the transaction, is more than three and a half percent of (ii) In respect of non-integral foreign operations, if there are significant exchange fluctuations during the quarter, the income and expense items of non-integral foreign operations should be translated by using the exchange rate at the date of the transaction instead of the quarterly average closing rate. For this purpose, the exchange rate fluctuation would be considered as significant, if the difference between the two rates is more than	

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	seven percent of the exchange rate prevailing at the date of the transaction. The limit of three and a half / seven percent variation has been considered as appropriate since such variation is not expected to have a material impact on the amount of the relevant items such as foreign currency loans and advances and deposits, and operating results. (d) Banks are, however, encouraged to equip themselves to record the foreign currency transactions of Indian branches as well as integral foreign operations and translate the income as well as expense items of non-integral foreign operations at the exchange rate prevailing on the date of the transaction. Paragraph 8 of Ind AS 21 defines 'closing rate' as the spot exchange rate at the end of the reporting period. (AS 11 defines closing rate as the exchange rate at the balance sheet date). In order to ensure uniformity among banks, RBI had stated that the closing rate to be applied for the purposes of AS 11 (revised 2003) for the relevant accounting period would be the last closing spot rate of exchange announced by FEDAI for that accounting period.	
4.	*Depreciation* Extant RBI instructions require that banks charge depreciation on computers on a straight line method at the rate of 33.33 percent per annum. However, in terms of IAS 16 and its Indian equivalent Ind AS 16 on Property Plant and Equipment, the depreciable amount of asset shall be allocated on a systemic basis over its useful life. The useful life of asset is defined in terms of the asset's expected utility to the entity. The depreciation method used should reflect the pattern in which the asset's future economic	The extant RBI instructions requiring 33% depreciation for computers would not be in line with the principle based Ind AS, where the depreciation has to be based on the useful life of the asset. It is recommended that while RBI need not withdraw the

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	benefits are expected to be consumed by the entity. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.	circular, it may clarify that the rates prescribed are indicative and that the banks may comply with the accounting standards in this regard.
5.	*Related Party Disclosure* The present reporting framework for related party transactions is based on AS 18 Related Party Disclosures issued by ICAI read with RBI guidelines on the matter. In order to facilitate compliance with AS 18, RBI has advised banks that the related parties for a bank are its parent, subsidiary(ies), associates/joint ventures, Key Management Personnel (KMP) and relatives of KMP. KMP are the whole time directors for an Indian bank and the chief executive officer for a foreign bank having branches in India. Relatives of KMP would be on the lines indicated in Section 45 S of the R.B.I. Act, 1934. The definition of related party as per Ind AS 24 is given in Annex. Ind AS 24, includes, among others, a person or a close member of that person's family as related to a reporting entity if that person has control or joint control or has significant influence over the reporting entity. The RBI guidelines while defining related party do not provide for inclusion of such persons as "related parties". Therefore it appears, for instance that shareholders/ promoters with significant influence/ control are outside the definition of related party. According to AS 18, as notified by the Government, a non-executive director of a company should not be	RBI may consider amending the definition of related party and key management personnel in its guidelines to incorporate the definition of related party within Ind AS 24. The other clarifications by RBI with respect to related party disclosures on disclosure formats, nature of disclosure, position of nationalised banks and secrecy provisions may continue as there appears to be no inconsistency with Ind AS 24.

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	considered as a key management person by virtue of merely his being a director unless he has the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. However, Ind AS 24 defines KMP as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.	
6.	*Business Combinations* Under the relevant provisions of the Banking Regulation Act, 1949, the RBI is required to approve schemes for voluntary merger of banks.	It is suggested that while examining/ approving such schemes RBI advises banks to comply with Ind AS 103 and other relevant accounting standards.
7.	*Discontinuing operations* The RBI vide circular reference DBOD.No.BP.BC.82/21.04.018/2003-04 dated April 30, 2004 had advised banks that Merger / closure of branches of banks by transferring the assets / liabilities to the other branches of the same bank may not be deemed as a discontinuing operation and hence Accounting Standard 24 issued by ICAI on Discontinuing operations will not be applicable to merger / closure of branches of banks by transferring the assets / liabilities to the other branches of the same bank. As per Ind AS 105, a discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and: (a) represents either a separate major line of business or a geographical area of operations, and	Ind AS 105 primarily deals with the disposal of assets and discontinued operations where they go out of the entity rather than where they continue to remain within the entity as a part of other operations. Therefore the extant RBI instructions do not appear to violate the intent of Ind AS 105.

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	(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or (c) is a subsidiary acquired exclusively with a view to resale and the disposal involves loss of control.	
8.	*Materiality threshold for prior period items* RBI vide its circular DBOD.No.BP.BC.89/21.04.018/2002-03 dated March 29, 2003 has issued guidelines on Compliance with Accounting Standards (AS) by Banks. In respect of AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, issued by the ICAI, the RBI has provided guidance on a quantitative threshold for materiality by requiring compliance with AS 5 for in respect of any item of prior period income or prior period expenditure which exceeds one percent of the total income/total expenditure of the bank if the income/expenditure is reckoned on a gross basis or one percent of the net profit before taxes or net losses as the case may be if the income is reckoned net of costs. A similar threshold has also been prescribed in the case of revenue recognition.	The Conceptual Framework for Financial Reporting (QC 11) specifies that materiality is an entity specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Ind AS 8 also provides a similar guidance on materiality. The RBI guideline attempts to apply a uniform materiality threshold and may not be inconsistent with the Conceptual Framework as long as it understood that there may be instances where an amount may be material on account of nature rather than magnitude.
9.	*Revenue recognition in the case of non-performing assets* In the context of AS 9: Revenue Recognition, RBI has clarified that non-recognition of income by the banks in case of non-performing advances and non-	Extant RBI prudential norms on income recognition should be review in light of Ind AS

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	performing investments, in compliance with the regulatory prescriptions of the RBI, should not attract a qualification by the statutory auditors as this would be in conformity with provisions of the standard, since it recognises postponement of recognition of revenue where collectability of the revenue is significantly uncertain.	implementation.
10.	*DTL on Special Reserve under Section 36(1)(viii) of the Income Tax Act, 1961* The RBI vide its circular BP.BC.77/21.04.018/2013-14 dated December 20, 2013 on '*Deferred Tax Liability on Special Reserve created under Section 36(1) (viii) of the Income Tax Act, 1961'* has advised banks to create deferred tax liability (DTL) on Special Reserve created under section 36(1)(viii) of the Income Tax Act, 1961. These instructions are based on the current AS 22: *Accounting for taxes on income* issued by the ICAI. AS 22, being based on the pre-1996 IAS 12 uses an income statement liability method whereas the current IAS 12 uses balance sheet liability method.	The ICAI may be requested to issue clarifications in the context of Ind AS 12. The issue of DTL/DTA in respect of HTM investments and provision for bad and doubtful debts in the case of banks has been examined by the Expert Advisory Committee (EAC) of the ICAI in the past. Given that these issues are especially relevant to the banking industry, the ICAI may also consider issuing clarifications on these aspects.
11	**Availability of OCI for distribution of dividend** Would Other Comprehensive Income be available for distribution as dividend.	Comprehensive income represents all non-owner changes in equity. This is further segregated into profit or loss and OCI. The IASB is yet to provide a principle based approach to segregate items into OCI and

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		classification of particular item into OCI is based on the specific requirements of individual standards. Availability for distribution as dividend in dependent upon the statutory provisions of the Companies Act, 2013, the Banking Regulation Act, 1949 and the regulations made there under. Since these statutes were enacted prior to the implementation of Ind AS, it is unclear at this stage whether OCI would be permitted as available for distribution from a statutory perspective. Items in OCI generally represent unrealised gains/losses and remeasurements and therefore from a prudential perspective these may not qualify as available for distribution of dividend. The declaration of dividend by banks is governed by instructions contained in RBI circular DBOD.No.BP.BC.88/21.02.067/2004-05 dated May 4, 2005. RBI may, in consultation with

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		MCA and other authorities, if required, review the same in light of the implementation of Ind AS. As has been pointed out at various places in this Report, there may be a need to withdraw certain guidelines which are inconsistent with Ind AS. In such cases RBI may consider placing prudential filters such as restrictions on dividend to address its regulatory and supervisory concerns.

List of Members of the Working Group

1. Shri Sudarshan Sen, Principal Chief General Manager, Department of Banking Regulation
2. Shri Manoj Fadnis, President, Institute of Chartered Accountants of India
3. Dr. Avinash Chander, Technical Director, Institute of Chartered Accountants of India
4. Shri P K Praharaj, Deputy General Manager & Project Director, IFRS Department, State Bank of India
5. Shri Ajay Mittal, Chief Accountant, ICICI Bank
6. Shri P R Ramesh, Chairman, Deloitte Haskins & Sells
7. Shri Ashutosh Pednekar, Partner, M P Chitale & Co.
8. Shri V Venkataramanan, Partner, BSR & Co., LLP
9. Shri Vidhyadhar Kulkarni, Leader, DFK India
10. Shri Aman Bhargava, Associate Director, Grant Thornton India LLP (up to June 2, 2015)
11. Shri Keyur Dave, Associate Director, Grant Thornton India LLP (from June 3, 2015)
12. Shri K Unnikrishnan, Deputy Chief Executive, Indian Banks Association
13. Smt. Usha Janakiraman, General Manager, Department of Banking Regulation , Member Secretary

Shri P R Ravi Mohan, the then Chief General Manger-in-charge, Department of Banking Supervision attended some Working Group meetings as a special invitee.

Annex I: Proposed Third Schedule to Banking Regulation Act, 1949

The Third Schedule to Banking Regulation Act, 1949

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

1. This schedule sets out the minimum requirements for disclosure on the face of :

   (a) The Balance Sheet as at the end of the year, including Statement of Changes in Equity

   (b) Profit and Loss Account for the year

   (hereinafter referred to as 'Financial Statements' for the purpose of this Schedule)

   Line items, sub-line items and subtotals shall be presented as an addition or substitution on the face of the Financial Statements when required for compliance with the Banking Regulation Act, 1949, guidelines issued by the Reserve Bank of India from time to time or specified in the Accounting Standards prescribed under the Companies (Indian Accounting Standards) Rules, 2015 (hereinafter referred to as 'Indian Accounting Standards').

2. The term 'Profit and Loss Account' has the same meaning as the 'Statement of Profit and Loss' in Indian Accounting Standards. The Statement of Changes in Equity has been included as a part of the Balance Sheet. Where Indian Accounting Standards require a separate Statement of Changes in Equity to be prepared, a statement of Statement of Changes in Equity included in the Balance Sheet as per this format may be considered compliant with such requirement.

3. Where compliance with the requirements of the Act, guidelines issued by the Reserve Bank of India from time to time or Indian Accounting Standards require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head/subhead or any changes *inter se*, in the Financial Statements, the same shall be made and the requirements of the Third Schedule shall stand modified accordingly, subject to clause (2) above.

4. The presentation and disclosure requirements specified in Form A and Form B of this Schedule are in addition to and not in substitution of the disclosure or presentation requirements specified by Reserve Bank of India from time to time or specified in Indian Accounting Standards. The Reserve Bank of India may prescribe requirements for any of the components of Financial Statements including the Notes to Accounts which shall contain information in addition to that presented in Form A and Form B.

5. (i) Notes shall contain information in addition to that presented in the Financial Statements and shall provide where required (a) narrative descriptions or disaggregations of items recognized in those statements and (b) information about items that do not qualify for recognition in those statements.

   (ii) Each item on the face of the Balance Sheet, Statement of Changes in Equity and Profit and Loss Account shall be cross-referenced to any related information in the Notes. In preparing the Financial Statements including the Notes, a balance shall be maintained between providing excessive detail that may not assist users of Financial Statements and not providing important information as a result of too much aggregation.

6. Banks shall present the Financial Statements in Indian Rupees. The unit of measurement for presenting the Financial Statements should be Indian Rupees in million. The unit of measurement shall be used consistently and uniformly in the entire Financial Statements including Notes.

7. Financial Statements shall contain the corresponding amounts (comparatives) for the immediately preceding reporting period, if any, for all items shown in the Financial Statements including Notes.

8. Financial Statements shall disclose all ‘material’ items i.e. the items that could individually or collectively, influence the economic decisions that users make on the basis of the Financial Statements. Materiality depends on the size and nature of the item judged in the particular circumstances.

9. For the purpose of this Schedule, the terms used herein shall be as per Indian Accounting Standards and the instructions issued by the Reserve Bank of India from time to time.

The Banking Regulation Act, 1949
The Third Schedule (see Section 29)

Form A
Form of Balance Sheet

Balance Sheet of .... (name of the Banking Company)
as at March 31, ...(Year)

	Note	As at March 31, ___ (Current year)	As at March 31,___ (Previous year)
Assets			
Cash in hand and balances with Reserve Bank of India			
Balances with other central banks			
Balances with other banks, Financial Institutions and money at call and short notice			
Derivative financial instruments			
Investments			
Advances			
Property, plant and equipment			
Goodwill			
Other intangible assets			
Current tax assets			
Deferred tax assets			
Other assets			
Total assets			
Liabilities and equity			
Liabilities			
Deposits			
Borrowings			
Derivative financial instruments			
Other liabilities and provisions			
Current tax liabilities			
Deferred tax liabilities			
Debt securities			
Subordinated liabilities			
Total liabilities			
Equity			
Equity share capital			
Other equity			
Total equity			
Total liabilities and equity			

Contingent liabilities, commitments and guarantees

Statement of Changes in Equity of .... (Name of banking company)
for the year ended March 31, ...(Year)

1. Equity Share Capital

(Amount pertaining to previous year given in parenthesis below)

Balance at the beginning of the year	Issued during the year	Reductions during the year	Balance at the close of the year

2. Other equity

	Share application money pending allotment	Equity component of financial instruments	Reserves and Surplus					Items of Other Comprehensive Income (OCI)							Total
			Statutory Reserve	Capital Reserve	Share Premium Account	Other Reserves (specify nature)	Retained Earnings	Re-measurements of net defined benefit plans	Gains/ (losses) from equity investments through OCI	Gains/ (losses) of other financial assets through OCI	Exchange differences on translating financial statements of foreign operations	Cash flow hedge reserve	Revaluation Surplus	Others (specify nature)	
Balance as at April 1, _____ (beginning of the previous year)															
Changes in accounting policy/prior period errors															
Restated balance at the beginning of the reporting period															
Dividend paid including dividend distribution tax															
Transfer to/from retained earnings															
Other Additions/ Deductions during the year (to be specified)															

	Share application money pending allotment	Equity component of financial instruments	Reserves and Surplus					Items of Other Comprehensive Income (OCI)							Total
			Statutory Reserve	Capital Reserve	Share Premium Account	Other Reserves (specify nature)	Retained Earnings	Re-measurements of net defined benefit plans	Gains/ (losses) from equity investments through OCI	Gains/ (losses) of other financial assets through OCI	Exchange differences on translating financial statements of foreign operations	Cash flow hedge reserve	Revaluation Surplus	Others (specify nature)	
Income tax on the above															
Profit (loss) for the year after income tax															
Other Comprehensive Income for the year before income tax Less: Income Tax Other Comprehensive Income															
Total Comprehensive Income for the year															
Balance as at March 31, ____ (end of previous year)															
Changes in accounting policy/prior period errors															
Restated balance at the beginning of the reporting period															
Dividend paid including dividend distribution tax															
Transfer to/from retained earnings															
Other Additions/ Deductions during the year (to be specified)															
Income tax on the above															
Profit (loss) for the year after income tax															

	Share application money pending allotment	Equity component of financial instruments	Reserves and Surplus					Items of Other Comprehensive Income (OCI)							Total
			Statutory Reserve	Capital Reserve	Share Premium Account	Other Reserves (specify nature)	Retained Earnings	Re-measurements of net defined benefit plans	Gains/ (losses) from equity investments through OCI	Gains/ (losses) of other financial assets through OCI	Exchange differences on translating financial statements of foreign operations	Cash flow hedge reserve	Revaluation Surplus	Others (specify nature)	
Other Comprehensive Income for the year before income tax Less: Income Tax Other Comprehensive Income															
Total Comprehensive Income for the year															
Balance as at March 31, ____ (end of the current year)															

Form B

Form of Profit and Loss Account

Profit and Loss Account of........................ (name of the Banking Company) **for the year ended March 31, ...**(Year)

	Note	Year ended March 31, ___ (Current year)	Year ended March 31,___ (Previous year)
Interest income			
Interest expense			
Net interest income			
Fees and commission income			
Fees and commission expense			
Net fee and commission income			
Net gain/(loss) on fair value changes			
Other income			
Total income			
Impairment losses on financial instruments			
Employee benefits			
Depreciation and impairment of property, plant and equipment			
Amortisation and impairment of intangible assets			
Other expenses			
Total expenses			
Net profit/(loss) before taxes and exceptional items			
Exceptional items			
Net profit/(loss) before taxes			
Taxes			
- Current tax			
- Deferred Tax			
Net profit/(loss) after tax from continuing operations			
Profit/(loss) from discontinued operations, net of tax			
Net profit/(loss) for the period			

	Note	Year ended March 31, ___ (Current year)	Year ended March 31,___ (Previous year)
Other Comprehensive Income			
A (i) Items that will not be reclassified to profit or loss (specify items and amounts)			
(ii) Income tax relating to items that will not be reclassified to profit or loss			
Subtotal			
B (i) Items that will be reclassified to profit or loss (specify items and amounts)			
(ii) Income tax relating to items that will be reclassified to profit or loss			
Subtotal			
Other Comprehensive Income (A + B)			
Total Comprehensive Income for the period			
Earnings per equity share (for continuing operations)			
Basic (Rs.)			
Diluted (Rs.)			
Earnings per equity share (for discontinued operations)			
Basic (Rs.)			
Diluted (Rs.)			
Earnings per equity share (for continuing and discontinued operations)			
Basic (Rs.)			
Diluted (Rs.)			

Annex II: Suggested formats for Notes to Financial Statements

The following are the suggested formats of the information to be presented by way of Notes to the Financial Statements, which may be prescribed by RBI.

1. Summarised classification of assets and liabilities

	As at March 31, ___ (Current year)							As at March 31,___ (Previous year)						
	Amortised cost	At Fair Value				Others*	Total	Amortised cost	At Fair Value				Others*	Total
		Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal				Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal		
	(1)	(2)	(3)	(4)	(5=2+3+4)	(6)	(7=1+5+6)	(8)	(9)	(10)	(11)	(12=9+10+11)	(13)	(14=8+12+13)
Assets														
Cash in hand and balances with Reserve Bank of India														
Balances with other central banks														
Balances with other banks, Financial Institutions and money at call and short notice														
Derivative financial instruments														
Investments														
Advances														
Property, plant and equipment														
Goodwill														
Other intangible assets														

	As at March 31, ___ (Current year)							As at March 31,___ (Previous year)						
	Amortised cost	At Fair Value				Others*	Total	Amortised cost	At Fair Value				Others*	Total
		Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal				Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal		
	(1)	(2)	(3)	(4)	(5=2+3+4)	(6)	(7=1+5+6)	(8)	(9)	(10)	(11)	(12=9+10+11)	(13)	(14=8+12+13)
Current tax assets														
Deferred tax assets														
Other assets														
Total assets														
Liabilities														
Deposits														
Borrowings														
Derivative financial instruments														
Other liabilities and provisions														
Current tax liabilities														
Deferred tax liabilities														
Debt securities														
Subordinated liabilities														
Total liabilities														

* Other basis of measurement such as cost may be explained as a footnote

2. Cash in hand and balances with Reserve Bank of India

		As at March 31, ___ (Current year)	**As at March 31,___ (Previous year)**
I.	Cash in hand (including foreign currency notes)		
II.	Balances with Reserve Bank of India		
	(a) In Current Accounts		
	(b) In Reverse Repo		
	(c) In Other Accounts*		
	Subtotal (a, b and c)		
	Total (I and II)		

* Restrictions, if any, on utilisation of balances should be disclosed

3. Balances with other central banks*

		As at March 31, ___ (Current year)	**As at March 31,___ (Previous year)**
I	In Current Accounts		
II	In Other Accounts		
	Total (I and II)		

* Restrictions, if any, on utilisation of balances should be disclosed

4. Balances with other banks, Financial Institutions and money at call and short notice

		As at March 31, ___ (Current year)	**As at March 31,___ (Previous year)**
I.	Balances with other Banks		
	(a) in Current Accounts		
	(b) in Other deposit accounts		
	Subtotal (a and b)		
II	Balances with Financial Institutions		
	(a) Deposits in lieu of shortfall in priority sector lending targets		
	(b) Other deposits		
	Subtotal (a and b)		
III.	Money at Call and Short Notice		
	(a) with Banks		
	(b) with other institutions		
	Subtotal (a and b)		
	Total (I, II and III)		
	Balances in India		
	Balances outside India		
	Total		

5. Derivative financial instruments

1 *Explain use of derivatives*
2 *Cross-reference to Financial Risks section for management of risks arising from derivatives*

	As **at** March 31, ___ (Current year)			As **at** March 31,___ (Previous year)		
	Notional amounts	Fair Value - Assets	Fair Value - Liabilities	Notional amounts	Fair Value - Assets	Fair Value - Liabilities
Currency derivatives						
Spot and forwards						
Currency Futures						
Currency swaps						
Options purchased						
Options sold (written)						
Others						
Total						
Interest rate derivatives						
Forward Rate Agreements and Interest Rate Swaps						
Options purchased						
Options sold (written)						
Futures						
Others						
Total						
Credit derivatives						
Equity linked derivatives						
Other derivatives (Please specify)						
Total derivatives						
Included in above are derivatives held for hedging and risk management purposes as follows:						
Fair value hedging:						
- Currency derivative						
- Interest rate derivative						
- Credit derivative						
- Equity linked derivative						
- Others						
Subtotal (A)						
Cash flow hedging:						
- Currency derivative						
- Interest rate derivative						
- Credit derivative						
- Equity linked derivative						
- Others						
Subtotal (B)						
Net investment hedging:						
- Currency derivative						

	As **at** March 31, ___ (Current year)			As **at** March 31,___ (Previous year)		
	Notional amounts	Fair Value - Assets	Fair Value - Liabilities	Notional amounts	Fair Value - Assets	Fair Value - Liabilities
- Interest rate derivative						
- Credit derivative						
- Equity linked derivative						
- Others						
Subtotal (C)						
Total (A+B+C)						

With respect to hedges and hedge accounting, banks may provide a description in accordance with the requirements of Indian Accounting Standards, of how derivatives are used for hedging, explain types of hedges recognised for accounting purposes and their usage/application by the entity.

6. Investments

	As at March 31, ___ (Current year)							As at March 31,___ (Previous year)						
	Amortised cost	At Fair Value				Others*	Total	Amortised cost	At Fair Value				Others*	Total
		Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal				Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal		
	(1)	(2)	(3)	(4)	(5=2+3+4)	(6)	(7=1+5+6)	(8)	(9)	(10)	(11)	(12=9+10 +11)	(13)	(14=8+12 +13)
Investments														
A) In India														
Government securities														
Other approved securities														
Debt securities														
Equity instruments														
Mutual fund units														
Subsidiaries, associates and joint ventures														
Others (specify)														
Total – Gross														
Less: Impairment loss allowance														
Total – Net														
B) Outside India														
Government securities														
Debt securities														
Equity instruments														
Mutual fund units														

<table>
<tr><td rowspan="3"></td><td colspan="7">As at March 31, ___
(Current year)</td><td colspan="7">As at March 31,___
(Previous year)</td></tr>
<tr><td rowspan="2">Amortised cost</td><td colspan="4">At Fair Value</td><td rowspan="2">Others*</td><td rowspan="2">Total</td><td rowspan="2">Amortised cost</td><td colspan="4">At Fair Value</td><td rowspan="2">Others*</td><td rowspan="2">Total</td></tr>
<tr><td>Through other comprehensive income</td><td>Through profit and loss account</td><td>Designated at fair value through profit and loss account</td><td>Subtotal</td><td>Through other comprehensive income</td><td>Through profit and loss account</td><td>Designated at fair value through profit and loss account</td><td>Subtotal</td></tr>
<tr><td></td><td>(1)</td><td>(2)</td><td>(3)</td><td>(4)</td><td>(5=2+3+4)</td><td>(6)</td><td>(7=1+5+6)</td><td>(8)</td><td>(9)</td><td>(10)</td><td>(11)</td><td>(12=9+10 +11)</td><td>(13)</td><td>(14=8+12 +13)</td></tr>
<tr><td>Subsidiaries, associates and joint ventures</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Others (specify)</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Total – Gross</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Less: Impairment loss allowance</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Total – Net</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Total Investments – Gross (C) = (A) + (B)</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Less: Impairment loss allowance</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Total – Net</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

* Other basis of measurement such as cost may be explained as a footnote

7. Advances

	As at March 31, ___ (Current year)							As at March 31,___ (Previous year)						
	Amortised cost	At Fair Value				Others*	Total	Amortised cost	At Fair Value				Others*	Total
		Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal				Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal		
	(1)	(2)	(3)	(4)	(5=2+3+4)	(6)	(7=1+5+6)	(8)	(9)	(10)	(11)	(12=9+10+11)	(13)	(14=8+12+13)
Advances														
A (i) Bills Purchased and Bills Discounted														
(ii) Cash Credits, Overdrafts, Loans repayable on Demand														
(iii) Term Loans														
Gross														
Less: Impairment loss allowance														
Net														
B.(i) Secured by tangible assets														
(ii) Covered by Bank/ Government Guarantees														
(ii) Unsecured														
Gross														
Less: Impairment loss allowance														
Total														
C.I Advances in India														
(i) Priority Sectors														
(ii) Public Sectors														
(iii) Banks														

	As at March 31, ___ (Current year)							As at March 31,___ (Previous year)						
	Amortised cost	At Fair Value				Others*	Total	Amortised cost	At Fair Value				Others*	Total
		Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal				Through other comprehensive income	Through profit and loss account	Designated at fair value through profit and loss account	Subtotal		
	(1)	(2)	(3)	(4)	(5=2+3+4)	(6)	(7=1+5+6)	(8)	(9)	(10)	(11)	(12=9+10+11)	(13)	(14=8+12+13)
(iv)Others														
Gross														
Less: Impairment loss allowance														
Net														
II. Advances outside India														
(i) Banks														
(ii) Others														
Gross														
Less: Impairment loss allowance														
Net														
Total: (C I and C II)														

* Other basis of measurement such as cost may be explained as a footnote

Note: Amounts presented should be suitably disaggregated to reflect the policies and practices of managing and monitoring advances

8. Property, plant and equipment

	As **at** March 31, ___ (Current year)				As **at** March 31,___ (Previous year)			
	Property*	Equipment / Furniture and Fittings	Assets on lease	Total	Property*	Equipment / Furniture and Fittings	Assets on lease	Total
At cost or fair value at the beginning of the year								
Additions								
Acquisitions #								
Revaluation adjustment, if any								
Disposals								
Reclassification from/to held for sale								
Other adjustments (please specify)								
At cost or fair value at the end of the year								
Accumulated depreciation and impairment as at the beginning of the year								
Depreciation for the year								
Disposals								
Impairment/(reversal) of impairment								
Reclassification from/to held for sale								
Other adjustments (please specify)								
Accumulated depreciation and impairment as at the end of the year								
Net carrying amount as at the end of the year								
Capital Work in Progress including advances for capital assets								

** Includes Land Rs.XXX (Previous Year Rs.XXX)*

 # Represents assets acquired in a business combination during the year

9. Goodwill

	As at March 31, ___ (Current year)	**As at March 31, ___ (Previous year)**
At cost, beginning of the year		
Additions		
Acquisitions		
Disposals		
Other adjustments		
Total cost		
Accumulated impairment:		
At beginning of the year		
Disposals		
Impairment/(reversal) of impairment		
Other adjustments		
Total impairment		
Net carrying amount		

10. Other intangible assets

	As at March 31, ___ (Current year)			As at March 31,___ (Previous year)		
	Software	Other Intangible assets	Total	Software	Other Intangible Assets	Total
At cost, beginning of the year						
Additions						
Acquisitions						
Fair value adjustments						
Disposals						
Other adjustments						
Total cost						
Accumulated amortization and impairment:						
At beginning of the year						
Amortization						
Disposals						
Impairment/(reversal) of impairment						
Other adjustments						
Total amortization and impairment						
Net carrying amount						

11. Other assets

	As **at** March 31, ___ (Current year)	As **at** March 31,___ (Previous year)
Interest accrued		
Assets held for sale		
- Out of the above, non-banking assets acquired in satisfaction of claims		
Security and other Deposits		
Acceptances and endorsements		
Others		
Total		

12. Deposits

	As at March 31, ___ (Current year)			**As at March 31,___ (Previous year)**		
	At Amortised Cost	**At Fair Value Through profit and loss**	**Total**	**At Amortised Cost**	**At Fair Value Through profit and loss**	**Total**
	(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)
Demand deposits						
(i) From Banks						
(ii) From Others						
Savings deposits						
Term deposits						
(i) From Banks						
(ii) From Others						
(iii) Certificate of Deposits						
Total						
Deposits of branches in India						
Deposits of branches outside India						
Total						
Deposits -non-interest bearing						
Deposits - interest bearing						
Total						

13. Borrowings

	As at March 31, ___ (Current year)			As at March 31,___ (Previous year)		
	At Amortised Cost	**At Fair Value Through profit and loss**	**Total**	**At Amortised Cost**	**At Fair Value Through profit and loss**	**Total**
	(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)
Reserve Bank of India						
Other Banks						
Others						
Total						
Borrowings in India						
Borrowings outside India						
Total						

14. Other liabilities and provisions

	As **at** March 31, ___ (Current year)	As **at** March 31,___ (Previous year)
Interest accrued		
Bills payable		
Acceptances and endorsements		
Provisions for employee benefits		
Share application money pending allotment		
Others		
Total		

15. Debt Securities

	As at March 31, ___ (Current year)			As at March 31,___ (Previous year)		
	At Amortised Cost	**At Fair Value Through profit and loss**	**Total**	**At Amortised Cost**	**At Fair Value Through profit and loss**	**Total**
	(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)
Liability component of compound financial instruments						
Others (Bonds/ Debenture etc.)						
Total						
Debt securities in India						
Debt securities outside India						
Total						

16. Subordinated Liabilities

	As at March 31, ___ (Current year)			As at March 31,___ (Previous year)		
	At Amortised Cost	**At Fair Value Through profit and loss**	**Total**	**At Amortised Cost**	**At Fair Value Through profit and loss**	**Total**
	(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)
Perpetual Debt Instruments						
Preference Shares other than those that qualify as Equity						
Others (specifying the nature and type of instrument issued)						
Total						
Subordinated Liabilities in India						
Subordinated Liabilities outside India						
Total						

17. Equity

A banking company shall disclose the following in the notes to accounts:

1. Share Capital

- for each class of share capital:

(a) the number and amount of shares authorized;

(b) the number of shares issued, subscribed and fully paid, and subscribed but not fully paid;

(c) par value per share;

(d) a reconciliation of the number of shares outstanding at the beginning and at the end of the period; separately disclosing the shares held by the Central Government and the percentage thereof

(e) the terms and conditions of the main features of each class of shares including rights, preferences and restrictions attaching to each class of shares and restrictions on the distribution of dividends and the repayment of capital;

(f) shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by or by subsidiaries or associates of the holding company or the ultimate holding company in aggregate;

(g) shares in the banking company held by each shareholder holding 5 percent or more shares specifying the number of shares held and the percentage thereof;

(h) shares reserved for issue under options and contracts/commitments for the sale of shares, including the terms and amounts;

(i) Terms of any securities convertible into equity shares issued along with the earliest date of conversion in descending order

(j) Calls unpaid (showing aggregate value of calls unpaid by directors and officers)

(k) Forfeited shares (amount originally paid up)

(l) In case of Banks incorporated outside India:-

a. Share Capital represents amount brought in by banks as capital including the start up capital prescribed by RBI

b. Amount of deposit kept with RBI u/s 11(2) of the Banking Regulation Act, 1949 to be separately disclosed

2. Other Equity
   (i) A description of the nature and purpose of each reserve under 'Other Reserves' shall be made in the notes.
   (ii) Debit balance of Profit and Loss account shall be shown as a negative figure under the head 'retained earnings'.
   (iii) In case the sum of 'Other Equity' in the Statement of Changes in Equity is negative, it shall continue to be presented as a negative amount under 'Other Equity'.

3. Share application money pending allotment shall be classified into equity or liability in accordance with relevant Indian Accounting Standards. Share application money to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable shall be separately shown under the head 'Other liabilities and provisions'.

4. Preference shares shall be classified and presented as 'Equity' or 'Liability' in accordance with the requirements of the relevant Accounting Standards. Accordingly, the disclosure and presentation requirements in this regard applicable to the relevant class of equity or liability shall be applicable *mutatis mutandis* to the preference shares. For instance, redeemable preference shares shall be classified and presented under 'Subordinated Liabilities' and the disclosure requirements in this regard applicable to such borrowings shall be applicable *mutatis mutandis* to redeemable preference shares.

5. Compound financial instruments such as convertible debentures, where split into equity and liability components, as per the requirements of the relevant Accounting Standards, shall be classified and presented under the relevant heads in 'Equity' and 'Liabilities'.

6. The amount of dividends proposed to be distributed to equity and preference shareholders for the period and the related amount per share shall be disclosed

separately. Arrears of cumulative dividends on preference shares shall also be disclosed separately.

18. Contingent liabilities and commitments

	As at March 31, ___ (Current year)	As at March 31,___ (Previous year)
Claims against bank not acknowledged as debts		
Liability for partly paid investments		
Guarantees given on behalf of constituents - in India		
Guarantees given on behalf of constituents - outside India		
Letters of Credit issued on behalf of constituents		
Others		
Total		

19. Interest income

	Year ended March 31, ___ (Current year)	Year ended March 31,___ (Previous year)
Interest on balances with and dues from banks		
Interest on advances		
Interest income from investments		
Other interest income		
Total		

20. Interest expense

	Year ended March 31, ___ (Current year)	Year ended March 31,___ (Previous year)
Interest on deposits		
Interest on borrowings		
Interest on debt securities		
Interest on subordinated liabilities		
Other interest expense		
Total		

21. Net gain/ (loss) on fair value changes

	Year ended March 31, ___ (Current year)	**Year ended March 31,___ (Previous year)**
Net gain/ (loss) on financial instruments at fair value through profit and loss account :-		
a) On trading portfolio		
- Investments		
- Derivatives		
- Others		
b) On financial instruments designated at fair value through profit and loss account		
c) Others		
Total		

22. Other income

	Year ended March 31, ___ (Current year)	**Year ended March 31,___ (Previous year)**
Net gain/(loss) on derecognition of financial assets at amortised cost		
Net gain/(loss) on ineffective portion of hedges		
Net gain/(loss) on derecognition of property, plant and equipment		
Dividend		
Foreign exchange gain/ (loss)		
Others*		
Total		

* Any item under the subhead 'Others' which exceeds one per cent of the total income to be presented separately

23. Impairment losses on financial instruments

	Year ended March 31, ___ (Current year)	**Year ended March 31,___ (Previous year)**
On advances		
On investments		
On off Balance Sheet Items		
On other assets		
Total		

24. Employee benefits

	Year ended March 31, ___ (Current year)	**Year ended March 31,___ (Previous year)**
Salaries and wages including bonus		
Post employment benefits		
Employee Share Based Payments		
Others		
Total		

25. Other expenses

	Year ended March 31, ___ (Current year)	**Year ended March 31,___ (Previous year)**
Rent, taxes and energy costs		
Repairs and maintenance		
Communication Costs		
Printing and stationery		
Advertisement and publicity		
Director’s fees, allowances and expenses		
Auditor’s fees and expenses		
Legal and Professional charges		
Insurance		
Other expenditure*		
Total		

* Any item under the subhead ‘Other expenditure’ which exceeds one per cent of the total income to be presented separately

Annex III: Application Guidance for Preparation of Financial Statements

1 **Introduction**

1.1 This document provides broad guidance to preparers on the major line items/sub-line items in the financial statements devised by the Working Group on Implementation of Ind AS by banks in India. It may be noted that it is not always necessary or possible to define a term /title/line item specifically and exclusively. Banks are also advised to refer to relevant Indian accounting standards and its framework to interpret the meaning thereof. Prevailing industry practices may also be borne in mind in this regard.

2 **Order of presentation**

2.1 In order to promote uniformity, banks may present the financial statements in the following order:

(i) Balance Sheet including Statement of Changes in Equity
(ii) Profit and Loss Account
(iii) Cash Flow Statement
(iv) Notes to Account

3. **Balance Sheet**

3.1 The presentation order of assets, liabilities and equity in the suggested formats is based on the concept that equity represents residual interests in the assets of the entity after deducting liabilities. The presentation of items broadly follows a descending order of liquidity. The guidance for compilation in brief, wherever found necessary, with respect to the line items and sub-line items in the balance sheet is given below.

3.2 **Assets**

3.2.1 The head '**Cash in hand and balances with Reserve Bank of India**' could include the following items

	Subhead	Guidance
I.	Cash in hand (including foreign currency notes)	Includes cash in hand including foreign currency

Subhead	Guidance
	notes and also of foreign branches in the case of banks having such branches. Cash in hand includes ATM balances but excludes any balances with outsourced vendors, which may be shown under Other Assets - Others
II. Balances with Reserve Bank of India (a) In Current Accounts (b) In Reverse Repo (c) In other Accounts Sub total	Nature of restriction and amount placed in such restricted balance should be specified. For instance, cash deposited and maintained by foreign banks in India with the Reserve Bank of India in compliance with the requirements of Section 11 of the Banking Regulation Act, 1949 should be included as a restricted balance.
Total (I and II)	

3.2.2 The head '**Balances with other central banks**' should include balances with other central banks in (a) Current Accounts and (b) Other Accounts. The nature of the restriction and amount placed in deposits where there are restrictions on withdrawal should be disclosed.

3.2.3 The head '**Balances with other banks, Financial Institutions and money at call and short notice**' should include the following items

Subhead	Guidance
I. Balances with Other Banks (a) in Current Accounts (b) in Other Deposit Accounts	Balances in current account and deposit accounts should be shown separately.

	Subhead	Guidance
	Subtotal (a and b)	
II.	Balances with Financial Institutions	Financial Institutions here presently refers to All-India Term Lending and Refinancing Institutions viz. Exim Bank, NABARD, NHB and SIDBI. Deposits with other Financial Institutions set up by (i) an enactment of Parliament, (ii) directly or indirectly owned or controlled by the Central Government and (iii) regulated by the Reserve Bank of India should also be included here.
	(a) Deposits in lieu shortfall in priority sector lending targets	Deposits made with NABARD, SIDBI, NHB, etc to meet shortfalls in priority sector lending targets
	(b) Other Deposits	
III.	Money at Call and Short Notice	Includes deposits repayable within 15 days or amounts less than 15 days notice lent in the inter-bank call money market.
	(a) with Banks	
	(b) with Other Institutions	
	Total (a and b)	
	Total (I,II and II)	
	Balances in India	Includes all balances with banks in India (including co-operative banks).

Subhead	Guidance
Balances outside India	Includes balances with banks outside India. Balances held by the Indian branches of the bank with its foreign branches should not be shown under this head but should be included in inter-branch accounts. Includes deposits usually classified in foreign countries as money at call and short notice. The total of balances in India and balances outside India should sum up to the total of balances with other banks, Financial Institutions and money at call and short notice.

3.2.4 The head '**Derivative Financial Instruments**' on the assets side of the balance sheet represents the Fair Value of Derivatives which are recognized as assets. The amount reported on the face of the balance sheet should match the amount reported in the notes under Note 1 'Summarized Classification of Assets and Liabilities' and under the Note 5 'Derivative financial instruments'.

3.2.5 The head **'Investments**' includes the total investments net of impairment loss allowance held by the bank, including investments at amortised cost and at fair value, both within and outside India. The granular details are to be given as per Note 6 on 'Investments'. Where the bank has used a basis other than amortised cost or fair value, the same may be included under the column 'Others', with the basis of measurement disclosed as a footnote. Certificate of deposits are to be shown under 'Debt Securities'.

3.2.6 The head '**Advances**' should include the following items

Subhead	Guidance
Advances - Bills Purchased and Bills Discounted - Cash Credits, Overdrafts, Loans repayable on Demand - Term Loans Gross Less: Impairment loss allowance **Net**	Amounts presented should be suitably disaggregated to reflect the policies and practices of managing and monitoring advances.
Secured by tangible assets	All advances or parts thereof (including advances against book debts) which are secured by tangible assets may be shown here. The item will include both advances in India and outside India.
Covered by Bank/ Government Guarantees	Advances to the extent they are covered by guarantees of Indian/ foreign governments and Indian/ foreign banks and DICGC and ECGC are to be included here. The item will include both advances in India and outside India.
Unsecured	All advances or parts thereof that are not classified under the previous two subheads of item B will be included here. For instance, if an advance is secured by tangible assets to

Subhead	Guidance
	the extent of 75 per cent, the secured component would be reflected under secured advance while the balance 25 per cent unsecured component would be included in this head.
Total	Total should match with net advances.
Advances in India - Priority Sectors - Public Sectors - to Banks - to Others **Total** **Advances outside India** - to Banks - to Others **Total**	Advances classified as priority sectors as per the instructions of the RBI are to be classified under the head ‘Priority Sectors’. Such advances should be excluded from advances to public sector. Advances to Central and State Governments and other Government undertakings including Government Companies and corporations which are, according to the statutes, to be treated as public sector companies are to be included in the category ‘Public Sector’. All advances to the banking sector including co-operative bank will come under the head ‘Banks’. All the remaining advances will be included under the head ‘Others’.

3.2.7 The head '**Property, plant and equipment**' should include the subheads property, equipment/furniture and fittings and assets on lease. Premises wholly or partly owned by the banking company for the purpose of business including residential premises should be shown against 'Property'. Assets on lease are to be shown separately. Motor vehicles, furniture and fixtures and other fixed assets should be shown under the head 'Equipment/Furniture and Fittings.'

3.2.8 The head '**Current Tax Assets**' on the face of the balance sheet should include the amount of tax deducted at source, advance tax paid, etc. to the extent that these items are not set off against relative tax provisions.

3.2.9 Guidance for compilation in respect of some of the items under the head '**Other Assets**' (specified in Note 11) is as under:

Subhead	**Guidance**
Interest accrued	Interest accrued in respect of assets held at amortised cost should not be included under this subhead and instead included as a part of the amortised cost itself.
Non-banking assets acquired in satisfaction of claims	These include immovable properties and other tangible assets acquired in satisfaction of claims pending disposal. The amount is to be separately presented under the subhead 'Assets held for sale'
Acceptances and endorsements	This represents a receivable with a contra entry on the liabilities side (see paragraph 3.3.3).

3.3 Liabilities

3.3.1 Deposits

Subhead	Guidance
Demand deposits	
(i) From Banks	Includes all bank deposits repayable on demand.
(ii) From Others	Includes all demand deposits of the non-bank sectors. Credit balances in overdrafts, cash credit accounts, deposits payable at call, matured deposits including matured certificates of deposits, inoperative current accounts, etc. are to be included under this category.
Savings deposits	Includes all savings bank deposits (including inoperative savings bank accounts)
Term deposits	
(i) From Banks	Includes all types of bank deposits (except certificate of deposits) repayable after a specified term.
(ii) From Others	Includes all types of deposits, except certificate of deposits of the non-bank sector repayable after a specified term.
(iii) Certificate of Deposits	Includes certificate of deposits issued by the bank.
Total	

Subhead	Guidance
Deposits of branches in India Deposits of branches outside India	The total of these two items should match with the figure of total deposits.
Total	
Deposits -non-interest bearing Deposits - interest bearing	The total should match with the figure of total deposits.
Total	

3.3.2 **Borrowings**

Subhead	Guidance
Reserve Bank of India	Includes borrowings/refinance obtained from Reserve Bank of India
Other Banks	Includes borrowings/refinance obtained from other banks (including cooperative banks)
Others	Includes borrowings/refinance obtained from EXIM Bank of India, NABARD and other institutions and agencies
Borrowings in India **Borrowings outside India**	The total of these two items should match with the figure of total borrowings.
Total	

3.3.3 **Other Liabilities and provisions**

Subhead	Guidance
Interest accrued	Includes interest accrued but not due on deposits and borrowings.

Subhead	Guidance
Bills payable	Includes drafts, telegraphic transfers, traveller's cheques, mail transfers payable, bankers cheques and other miscellaneous items.
Acceptances and Endorsements	This includes bills / drafts accepted by banks on behalf of customers which are to be recognised as a liability. Represents a payable with a contra entry on the assets side.
Provisions for Employee Benefits	Represents employee benefits as per Indian Accounting Standards
Share application money pending allotment	Share application money pending allotment shall be classified into equity or liability in accordance with relevant Indian Accounting Standards. Share application money to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable shall be separately shown under 'Other liabilities and provisions'.

3.3.4 The heads 'Current Tax Liabilities' and 'Deferred Tax Liabilities' may be presented as per the requirements of Indian Accounting Standards.

3.3.5 **Debt Securities**

Subhead	Guidance
Liability component of compound financial instruments	As per applicable Indian accounting standards
Others (Bonds/ Debenture etc.)	Includes debt securities issued other than subordinated liabilities.
Total	
Debt securities in India	The total of these two items should match with the figure of total debt securities.
Debt securities outside India	
Total	

4. Contingent Liabilities

4.1 Banks may disclose contingent liabilities under these heads only to the extent that the same has not already been provided for. For instance, in the case of financial guarantee contracts, Indian Accounting Standards specify certain recognition and measurement criteria. The amount disclosed in Note 18 would be the gross amount of the financial guarantee as reduced by the amount recognised in the balance sheet for the same.

5. Statement of Profit and Loss

5.1 Considering the nature of the business, the formats have been designed in a manner to: (i) clearly identify and segregate net interest income and net fee/commission income, (ii) segregate trading income from other miscellaneous income, (iii) identify impairment losses separately from other provisions. The guidance for compilation in brief, wherever found necessary, with respect to the line items and sub-line items in the Profit and Loss Account is given below.

5.2 Interest Income

	Subhead	Guidance
(i)	Interest on balances with and dues from banks	Includes interest on balances with central banks (if any),

	Subhead	Guidance
		banks, call loans, money market placements, liquidity adjustment facility, etc.
(ii)	Interest on advances	Includes interest and discount on all types of advances (including bills rediscounted) and also interest subsidy /subvention, if any, as per applicable Indian Accounting Standards.
(iii)	Interest income from investments	Includes interest and discount from the investment portfolio
(v)	Other interest income	Includes any other interest/ discount income not included in the above heads.
	Total	

5.3 Interest Expense

Subhead	Guidance
Interest on deposits	Includes interest paid on all types of deposits including deposits from banks and other institutions
Interest on borrowings	Includes discount/interest on all borrowings and refinance from RBI, other banks and other institutions and agencies.
Interest on debt securities	Includes interest on bonds/debentures, liability

Subhead	Guidance
	component of financial instruments.
Interest on subordinated liabilities	Includes interest on all subordinated liabilities
Other interest expense	Includes all other payments like interest on participation certificates, penal interest paid, etc.

5.4 ‘**Fee and Commission Income**’ includes all remuneration on services such as commission on collections, commission/ exchange on remittances and transfers, commission on letters of credit, and guarantees, commission on Government business, commission on other permitted agency business including consultancy, distribution of third party products and other services, brokerage, rental on lockers, etc. If any of these elements are required to be included under effective interest under Indian Accounting Standards, it should not be considered under this head.

5.5 ‘**Fee and Commission Expense**’ includes all expenses on services such as commission on documents sent on collection, commission/ exchange on remittances and transfers, commission on letters of credit, and guarantees, commission on other permitted agency business including consultancy and other services, brokerage, etc. If any of these elements are required to be included under effective interest under Indian Accounting Standards, it should not be considered under this head.

5.6 Net realised and unrealised gains and losses on financial assets/liabilities at fair value through profit or loss are included in the head **‘Net Gain/loss on fair value changes’**. However, contractual interest income and expense on financial instruments held at or designated at fair value through profit or loss may be recognised under interest income and expense respectively. The effect of the same should be suitably adjusted while determining fair value gains and losses. Further, subject to compliance with the requirements of

Indian Accounting Standards, the gains or losses arising out of changes in exchange rates on vanilla foreign exchange contracts where the changes in the fair value occur only on account of changes in exchange rates should be shown under this head. The subhead **'Others'** would include reclassification from OCI.

5.7 The head '**Other Income**' should include the following items

Subhead	Guidance
Net gain/(loss) on derecognition of financial assets at amortised cost Net gain/(loss) on ineffective portion of hedges	As per requirements of Indian Accounting Standard
Net gain/(loss) on derecognition of property, plant and equipment	Includes profit/loss on sale of furniture, land and building, motor vehicles, etc. Only the net position should be shown. If the net position is a loss, the amount should be shown as a deduction.
Dividend	Income earned by way of dividend. However, dividend in the nature of interest should be classified under Interest Income as per the requirements of Indian Accounting Standards.
Foreign exchange gain/ (loss)	As per Indian Accounting Standard. Also refer application guidance under paragraph 5.6 above for **'Net Gain/loss on fair value changes'**
Others	Includes income from bank's properties, security charges, insurance, etc. and any other miscellaneous income.

5.8 Banks should reflect recognised impairment losses (net of recoveries) as per the requirements of Indian Accounting Standards under the respective sub heads of Note 23 '**Impairment losses on financial instruments**'

5.9 The head '**Employee Benefits**' could include the following

Subhead	Guidance
Salaries and wages including bonus	Includes staff salaries/wages, allowances, bonus.
Post employment benefits	Provident fund, pension, gratuity and other superannuation and post-employment benefits.
Employee Share Based Payments	Includes cost of all employee share based payments including options granted by the holding company or any other group company
Other staff costs	Includes expenditure on account of liveries to staff, leave fare concessions, staff welfare, medical allowance to staff, etc.

5.10 The head '**Other Expenses**' could include the following

Subhead	Guidance
Rent, taxes and energy costs	Includes rent / lease charges on property, plant and equipment, municipal and other taxes (excluding income tax), electricity and other similar charges and levies.
Repairs and maintenance	Includes repairs to bank's property, plant and equipment and their maintenance charges, etc.
Communication Costs	Includes postal charges (like stamps), telephones, courier costs, facsimile, e-mail, internet, SWIFT charges etc.

Subhead	Guidance
Printing and stationery	Includes cost of books, forms and stationery used by the bank and other printing charges which are not incurred by way of publicity expenditure.
Advertisement and publicity	Includes expenditure incurred by the bank for advertisement and publicity purposes including printing charges on publicity material
Director's fees, allowances and expenses	Includes sitting fees and all other items of expenditure incurred on behalf of Directors including all allowances and expenses on behalf of directors. The daily allowance, hotel charges, conveyance charges, etc. which though in the nature of reimbursement of expenses incurred may be included under this head.
Auditor's fees and expenses	Includes the fees paid to the statutory auditors and branch auditors for professional services rendered and all expenses for performing their duties, even though they may be in the nature of reimbursement of expenses. If external auditors have been appointed by banks themselves for internal inspections and audits, the expenses incurred in that context including fees should not be included under this head but shown under 'other expenditure' instead.

Subhead	Guidance
Legal and Professional charges	All legal expenses and reimbursement of expenses incurred in connection with legal services are to be included here. Professional charges could include fee paid for consultancy, valuations, etc.
Insurance	Includes insurance charges on bank's property, plant and equipment, etc.
Other expenditure	All expenses other than those not included in any of the other heads like license fees, donations, subscriptions to papers, periodicals, entertainment expenses, travel expenses, etc. may be included under this head. In case any particular item of expenditure exceeds one per cent of the total income, it is required to be presented separately.
Total	

6. Significant Accounting Policies

6.1 Guidance on the significant accounting policies to be disclosed by the bank is given below. It may be noted that this is only an illustrative list and banks may include such other notes in this regard as may be found necessary and relevant to give users a better understanding of its financial statements**.**

6.2 The bank should disclose and an 'Overview of Bank' which should include a commentary about the entity description, its structure and nature of its activities

- Description about the Bank's activities.

- Address of registered office and corporate office.
- Regulations applicable to bank.
- Disclose the date when the financial statements were authorised for issue and who gave the authorisation.

6.3 Banks should disclose accounting policies regarding key areas of operations at one place. An indicative list of 'Significant Accounting Policies' includes

(i) Overview of Accounting Framework

(ii) Compliance with Indian Accounting Standards

- Briefly explain about the accounting standard framework i.e. Ind-AS, which has been followed for preparation of financial statements.
- The transition date for adopting new framework (only at the time of first time adoption).
- Basis of preparation of financial statements and exceptions.
- Use of judgments, estimates and assumptions
- Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements.

(iii) Changes to accounting policies

- Information about significant areas of accounting policy changes along with its effective date

(iv) Investments in subsidiaries, associates and joint ventures.

- Policy for valuation of investment in the separate financial statements

(v) Foreign Currency

- Information about currency in which financial information are presented

- Basis of currency translations of transactions, monetary and non-monetary assets and liabilities
- Basis of currency translations of foreign operations.

(vi) Cash and cash equivalents

- Disclosure about the items included in cash and cash equivalent in the Statement of Cash Flows
- Basis of fair value measurement

(vii) Financial assets/liabilities measured at fair value

- Basis of classification
- Components of assets and liabilities measured at fair value
- Disclosure about the methods of initial recognition and subsequent valuation.
- Treatment of realised and unrealised gain or losses.
- Basis of fair value measurement
- Disclosure about the treatment of change in fair value.

(viii) Derivative financial instruments and hedge accounting

- Policy for considering derivatives as trading or for hedging purpose
- Basis of valuation and accounting for fair value hedge, cash flow hedge, net investment hedge
- Basis of valuation and accounting for derivatives not considered for hedging

(ix) Financial assets/liabilities measured at amortised cost

- Basis of classification
- Components of assets and liabilities measured at amortised cost
- Disclosure about the methods of initial recognition and subsequent valuation.

- Policy for impairment and reversal of impairments

(x) Investments (including restructured investments)

- Method for valuation.
- Components and items which are covered under the heading of investments.
- Policy for treating investments as restructured and impaired/restructured and not impaired

(xi) Impairment of Investments

- Policy for impairment
- Reversal of impairment provision

(xii) Advances (including restructured advances)

- Method for valuation of loans.
- Components and items which are covered under the heading of loans.
- Policy for treating loans as restructured and impaired/restructured and not impaired

(xiii) Impairment of advances

- Policy for impairment
- Reversal of impairment provision

(xiv) Property, plant and equipment

- Basis of measurement– historical cost or revaluation
- Policy for accounting of capital improvements, repair and maintenance.
- Revaluation policy, where applicable
- Valuation policy for assets held for sale
- Depreciation and Impairment

(xv) Goodwill and other intangible assets

- Basis of accounting and measurement.
- Policy for amortisation and impairment
- Useful life

(xvi) Income taxes

- Policy for recognising of income tax expenses and deferred tax

(xvii) Deposits, debt securities issued, subordinated liabilities and other borrowings

- Description/basis of classification
- Components and basis of initial recognition and subsequent measurement

(xviii) Business combinations

- Basis, policy and treatment for business combination including goodwill

(xix) Offsetting financial assets and financial liabilities

- Disclosure about the condition, basis, amount and intention for offsetting financial assets and liabilities.

(xx) Derecognition of financial assets and liabilities. Basis of considering derecognition of financial assets and liabilities.

Annex IV: Instrument wise comparison of valuation requirements

Background to Ind AS 113

Ind AS 113 corresponds to IFRS 13 and has the objectives of (i) defining fair value, (ii) setting out a single IFRS framework for measuring fair value and (iii) specifying disclosures about fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). Where a price of an identical asset/ liability is not observable, an entity may use another valuation technique that maximizes the use of observable inputs and minimizes the use of unobservable inputs. In order to increase consistency and comparability in financial statements and related disclosures, the standard establishes a fair value hierarchy that categorizes into the following three levels the inputs to valuation techniques used to measure fair value:

(a) **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
(b) **Level 2**: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
(c) **Level 3:** Valuation based on unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Instrument wise comparison of valuation requirements

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
1.	Quoted securities	To be valued at market value	Fair value measurement based upon requirements of Ind AS 109	

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
	a) Shares and quoted units of Mutual funds	Market price of the scrip as available from the trades/ quotes on the stock exchanges.	Quoted prices from active markets that entity has access to.	Extant guidelines appear to be consistent with Ind AS requirements in respect of securities for which active markets exist. In rare instances of illiquid listed shares for which prices are not available on an ongoing basis, recourse to an external valuation may need to be taken. In the specific case of investments in subsidiaries, joint ventures and associates the option to value these at cost in separate financial statements may be exercised as discussed under (6) below.
	b) Government Securities	Market prices are available from SGL account transactions, price list of RBI, prices declared by Primary Dealers Association of India (PDAI) jointly with the FIMMDA.	Quoted prices from active markets. However, where these are not available a valuation technique may be used based on market observable inputs.	In the case of liquid securities, quotes in the Government Securities/ Corporate Debt markets are available. In the case of securities which are not frequently traded, i.e. where quotes are not available on an
	c) Corporate Bonds and Debentures	Market price of the scrip as available from the trades / quotes on the		

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
		stock exchanges, prices declared by PDAI jointly with FIMMDA periodically.		ongoing basis, an independent agency such as FIMMDA may provide valuation based upon market based/ market corroborated inputs taking into consideration the principles of Ind AS 113 to ensure consistent application across the banking industry.
	d) Bonds issued by State Distribution Companies (DSICOMS) under Financial Restructuring Plan where quoted	Market value		
2.	Unquoted securities qualifying for Statutory Liquidity Ratio (SLR) purposes		Since securities are unquoted, an appropriate valuation technique would be required to determine fair value. Depending upon the use of non-market observable inputs and their significance to the measurement, the measurement would be categorised as either Level 2 or Level 3.	The extant instructions provide for a rule based mark ups over the YTM based rates which may not be consistent with the Ind AS 113 principles. Where the valuation provided by an independent agency such as FIMMDA is the reference valuation (as currently mandated by RBI for many securities) , it may be necessary for FIMMDA to put in place a valuation methodology and provide valuations for such securities taking
	a)Central Government Securities	To be valued on the basis of the prices/YTM rates put out by PDAI / FIMMDA at periodical intervals.		
	b) Securities issued by state governments	To be valued applying the YTM methods by marking it up by 25 basis points above the yields of the Central Govt. Securities of equivalent maturity published out by PDAI / FIMMDA.		
	c) Other approved	To be valued applying the YTM method by		

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
	securities[18]	marking it up by 25 basis points above the yields of the Central Govt. Securities of equivalent maturity put out by PDAI / FIMMDA		into consideration the application guidance and valuation principles specified in Ind AS 113 to ensure consistent application across the banking industry.
	d) Capital Indexed bonds issued by Central Government	At cost as defined in circular DBOD.No.BC.8/12.02.001/97-98 dated January 22, 1998 and BC.18/12.02.001/2000-2001 dated August 16, 2000. Briefly the extant instructions entail an indexation with reference to the Wholesale Price Index (WPI) at the time of measurement and the WPI at the time of issuance adjusted to arrive at the carrying cost.		Extant guidelines requiring instruments to be valued at cost are not consistent with Ind AS 113 and may need to be modified to be in line with valuation on fair value basis as required under Ind AS 113 An independent agency such as FIMMDA may provide the valuation taking into account the principles of Ind AS 113 to ensure consistent application as discussed above.
	e) Treasury bills issued by the Central Government	To be valued at carrying cost.		
3.	Unquoted securities not qualifying for SLR purposes where valuation is based on YTM with			

[18] " approved securities means :

(i)securities in which a trustee may invest money under clause (a), clause (b), clause (bb), clause (c) or clause (d) of Section 20 of the Indian Trusts Act, 1882 (2 of 1882);

(ii) such of the securities authorised by the Central Government under clause (f) of Section 20 of the Indian Trusts Act, 1882 (2 of 1882), as may be prescribed

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
	mark up/ credit spreads.			
	a) Debentures/ bonds rated by rating agencies but not quoted	Such debentures/bonds may be of different companies having different ratings. These will be valued with appropriate credit spread over the YTM rates for Central Government securities, as published by PDAI / FIMMDA periodically. The credit spread would be graded according to the ratings assigned to the debentures/bonds by the rating agencies subject to the condition that the rate used for YTM for rated debentures/bonds should be at least 50 basis points above the rate applicable to GoI loan of equivalent maturity Further, where the debenture/bond is quoted and there have been transactions within 15 days prior to the valuation date, the value adopted should not be higher than the rate at which the transaction is recorded on the stock	Since securities are unquoted, an appropriate valuation technique would be required to determine fair value. Depending upon the use of non-market observable inputs and their significance to the measurement, the measurement would be categorised as either Level 2 or Level 3.	Rule based mark ups on YTM may not be consistent with Ind AS An independent agency such as FIMMDA may provide the valuation taking into account the principles of Ind AS 113to ensure consistent application as discussed under (2) above.

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
		exchange		
	b) Debentures/ bonds not rated by rating agencies	These will be valued with appropriate credit spread over the YTM rates for Central Govt. securities, as put out by PDAI / FIMMDA periodically. The rate used for the YTM for unrated debentures/bonds should not be less than the rate applicable to rated debentures/bonds of equivalent maturity. The credit spread for the unrated debentures/bonds should appropriately reflect the credit risk borne by the bank.		
	c)Preference shares	Valuation to be done on YTM basis in a manner similar to debentures explained above subject to the following considerations (i) The YTM rate should not be lower than the coupon rate/YTM for a GoI loan of equivalent maturity. (ii) Rate used for YTM for unrated preference share should not be less		

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
		than rate applicable to rated preference shares of equivalent maturity. Credit spread for unrated preference shares should appropriately reflect the credit risk borne by the bank (iii) Where preference dividends are in arrears no credit should be taken for accrued dividends and the value determined on YTM should be discounted by at least 15% if arrears are for one year, and more if arrears are for more than one year. (iv) Preference share should not be valued above its redemption value (v) When a preference share has been traded on a stock exchange within 15 days prior to the valuation date, the value should not be higher than the price at which the share was traded.		

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
		(vi) Investment in preference shares as part of project finance may be valued at par for a period of two years after commencement of production or five years after subscription whichever is earlier.		
	d) Investment in preference shares as part of rehabilitation package	YTM rate should not be lower than 1.5% above the coupon rate/YTM for GOI loan of equivalent maturity		
	e) Special securities directly issued by the Government of India (GoI) to the beneficiary entities[19] .	Valued at spread of 25 basis points above the corresponding yield on GoI securities.		
	f) Bonds issued by State Distribution Companies (DSICOMS) under Financial Restructuring Plan where such bonds are not quoted	Such bonds are to be valued on YTM basis using the YTM rates for central government securities of equivalent maturity as put out by FIMMDA on the valuation day with the following mark ups: a) During the period		

[19] Such special securities comprise oil bonds, fertilizer bonds, bonds issued to SBI, UTI, IFCI, FCI, IDBI, etc.

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
		when bonds' liabilities are with the State Discoms and guaranteed by respective state government then75 bps. If not guaranteed by the respective state government then a markup of 100 bps b) During the period when the bonds' liabilities are with the respective state governments -50 bps		
4.	Securities valued based on carrying cost		Quoted prices from active markets. However, where these are not available a valuation technique may be used based on market observable inputs. . Depending upon the use of non-market observable inputs and their significance to the measurement, the measurement	The extant RBI guidelines are not consistent with IFRS requirements since they require items to be measured at carrying cost. These instructions may be modified to require valuation at fair value as specified in Ind AS 113. It is suggested that where quoted prices are not available the valuation may be specified by an
	a) Zero coupon bonds	Carrying cost, i.e. acquisition cost plus discount accrued at the rate prevailing at the time of acquisition, which may be marked to market with reference to the market value. In the absence of market value, the ZCBs may be marked to market with reference to the present value of the ZCB. The present value of the ZCBs may be calculated by discounting the face value using the 'zero coupon yield curve', with		

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
		appropriate mark up as per the zero coupon spreads put out by FIMMDA periodically. In case the bank is still carrying the ZCBs at acquisition cost, the discount accrued on the instrument should be notionally added to the book value of the scrip, before marking it to market.	would be categorised as either Level 2 or Level 3.	independent agency such as FIMMDA on the lines mentioned in recommendations at (2) and (3) above.
	b) Investment in Preference shares as part of project finance	Valued at par for a period of two years after commencement of production or five years after subscription whichever is earlier		
	c) Commercial Paper	Carrying cost.		
	d) Certificate of deposits	Carrying cost (as per FIMMDA Circular)		
5.	Unquoted Mutual Funds and units of Venture Capital Funds(VCF), Securitisation Companies, etc		Since securities are unquoted, an appropriate valuation technique would be required to	The extant RBI guidelines may not be consistent with Ind AS requirement.
	a) Unquoted Mutual Fund Units with repurchase price	Unquoted MF units are to be valued on the basis of latest repurchase price declared by MF in		

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
		respect of each scheme.	determine fair value. Depending upon the use of non-market observable inputs and their significance to the measurement, the measurement would be categorised as either Level 2 or Level 3.	Where NAV/ repurchase price is available for SEBI registered mutual funds it may be used as a base to determine valuation. In other cases, it is suggested that the valuation may be carried out or certified by an independent external valuer taking into account Ind AS requirements.
	b) Unquoted Mutual Fund Units with lock in requirements/ without repurchase price	In case of MF with lock in period where repurchase price/market quotes not available units could be valued at NAV. If NAV is not available than valued at cost till the end of lock in period. Wherever re-purchase price is not available, the units could be valued at the NAV of the respective scheme		
	c) Unquoted investment in shares/bonds/units of VCF's	Classified under HTM for initial period of three years and valued at cost during this period. After three years unquoted shares / bonds / units transferred to AFS and valued as below: Units – Valuation will be done at NAV shown by the VCF in its financial statements. Units to be valued at least once a year based on audited results. If audited balance sheet/financial statements showing NAV figures are not available continuously for more than 18 months as on date of valuation, investments are to be valued at Re. 1 per VCF.		

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
		Equity – Valued at break up value ascertained from VCFs latest balance sheet. In case latest balance sheet is not available or more than 18 months the shares are to be valued at Rs.1/- Bonds - Bonds of VCFs should be valued as per prudential norms on classification, valuation of investment portfolio issued by RBI from time to time.		
	d) Investment in securities issued by SC/RC (SRs/PTCs issued by SC/RC in respect of assets sold by Banks and FIs)	The lower of the redemption value of the SRs/PTCs and the net book value (NBV) (i.e. book value less provision held) of the financial assets sold.		
	e) Other unquoted instruments including asset backed securities, residential mortgage backed securities, derivatives, etc.	No specific instructions		
6.	Investments in unquoted equity shares			
	a) Unquoted equity shares	Where current quotations are not available or where the shares are not quoted on	Appropriate valuation	As per Ind AS 27: *Separate Financial*

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
		the stock exchanges, should be valued at break-up value (without considering revaluation reserves, if any) Break-up value to be ascertained from the company's latest balance sheet (not more than one year prior to date of valuation). In case latest balance sheet is not available, the shares are to be valued at Re. 1 per company.	techniques would be required to be used to arrive at the fair value.	*Statements*, when an entity prepares separate financial statements it can elect to account for investments in subsidiaries, joint ventures and associates either at cost or in accordance with Ind AS109. In the case of investments in subsidiaries/JVs/ associate as defined in the accounting standards as well as for Regional Rural Banks (RRBs) the RBI may consider prescribing that these may only be accounted for at cost thereby limiting the option provided by Ind AS 27. Apart from the cases above, where adequate, timely and reliable information is available, banks may rely on valuations determined by themselves internally if based on sound and established internal systems with the approval of their Board of Directors
	b) Investments in RRB	Carrying cost (i.e. book value) on a consistent basis.		
	c) Investment in equity of JVs/ Subsidiaries	As per RBI instructions, currently are to be classified under HTM. Currently, therefore, no question of fair value. Investments need not be marked to market and will be carried at acquisition cost. Banks to recognise any diminution, other than temporary, in the value of their investments and provide accordingly.		

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
				provided, however, that a valuation of such instruments is carried out by an independent external valuer/expert at intervals not exceeding 12 months. For other equity instruments (not quoted or traded) for which data for valuation are neither reliable, adequate nor timely the Working Group recommends that such instruments be valued at carrying cost and subjected to testing for impairment. This would be a regulatory override to the principles of the accounting standards and its application is expected only in limited or rare cases. Alternatively, a carve out may be avoided and regulatory concerns could instead be addressed through other measures such as limiting the extent of such investments.
7.	Valuation norms on conversion of	Equity, debentures and other financial instruments	Where the securities are	In respect of unquoted equity shares, the

Sr. No.	Category of investments	Summarised RBI Guidelines	Summarised Ind AS Requirements	Recommendations/ Views
	outstanding	acquired by way of conversion of outstanding principal and/or interest should be classified in the AFS category and valued in accordance with the extant instructions on valuation of banks' investment portfolio, except to the extent that : a.) Equity may be valued at market value if quoted b.) In cases where equity is not quoted, valuation may be at break-up value in respect of standard assets and in respect of substandard/doubtful assets, equity may be initially valued at rupee one and at break-up value after restoration/ upgradation to standard category.	unquoted, an appropriate valuation technique would be required to determine fair value. Depending upon the use of non-market observable inputs and their significance to the measurement, the measurement would be categorised as either Level 2 or Level 3.	recommendation is the same as in Sr. No. 6 above.

Annex V: List of RBI instructions that need review

The list of RBI instructions applicable to Scheduled Commercial Banks[20] which, in the opinion of the Working Group, are not consistent with the requirements of Ind AS and need to be reviewed is given in the following table.

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
1.	DBR No BP.BC.6 /21.04.141/2015-16	01-Jul-15	Master Circular on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks	-	RBI categories of HTM, HFT and AFS as well as the accounting thereof are not consistent with the classification and accounting requirements of Ind AS 109. Therefore, these instructions would need to be reviewed.	2/ Annex IV	2.4.9 (1) Annex IV-4(a),5
2.	DBOD.BP.BC.34/21.04.141/2010-11	06-Aug-10	Sale of Investments held under Held to Maturity (HTM) Category	All		2	2.4.9(4)(b)
3.	DBOD No. BP.BC. 58/21.04.141/2010-11	04-Nov-10	Accounting Procedure for Investments – Settlement Date Accounting	All		2	2.5.2
4.	DBOD.No.BP.BC.57 /62-88	31-Dec-88	Inter-Bank Participations		The extant guidelines with regard to accounting for Inter-Bank Participation Certificates (IBPC) on risk sharing	3	3.6.1(1)

[20] RBI may also need to separately review corresponding instructions issued to All India Term Lending and Refinancing Institutions (Exim Bank, NABARD, NHB and SIDBI), as and when these are covered in the roadmap for implementation of Ind AS.

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
					basis are inconsistent with the offsetting requirements of Ind AS 32.		
5.	DBR.No.Ret.BC.24/ 12.01.001/2015-16	01-Jul-15	Master Circular - Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)	1.11	Given that accounting offsetting may not be available, RBI may need to review and recalibrate prudential limits for inter-bank liabilities (IBL) issued vide circular DBOD.No.BP.BC.66/21.01.002/2006-2007 dated March 6, 2007. Further, there may also be a case to review the treatment of derivatives for the computation of demand and time liabilities (DTL).	3	3.6.1(2)
6.	DBOD.No.BP.BC.66 /21.01.002/2006-2007	06-Mar-07	Prudential Limits for Inter-Bank Liabilities (IBL)	2			
7.	MPD.BC.187/07.01. 279/1999-2000	07-Jul-99	Interest Rate Swaps and Forward Rate Agreements	19	The accounting treatment for IRS on accrual basis is not aligned with Ind AS 109 as all derivatives are categorised under FVTPL. Further, hedging requirements and the hedge accounting model of the RBI circular is not consistent with Ind AS 109. It is therefore suggested that the instructions pertaining to accounting	4	4.3(1)

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
					may be withdrawn.		
8.	IDMC.MSRD.4801/06.01.03/2002-03	03-Jun-03	Exchange Traded Interest Rate Derivatives	Paragraph4(vi)	The accounting prescriptions contained in the RBI circular are not consistent with Ind AS 109. Ind AS 109, being based on IFRS 9 does not have bright lines for determining hedge effectiveness like IAS 39. Barring the recognition of unrealised gains on trading positions would also not be in consonance with Ind AS 109. Similarly the carry forward of realised gains as 'Other Liability' is not Ind AS 109 compliant. In light of the issuance of Ind AS 109, accounting instructions may be withdrawn	4	4.3(2)
9.	RBI/2015-16/84 Master Circular No.5/2015-16	01-Jul-15	RBI Master Circular on Risk Management and Inter-Bank Dealings	ParagraphA(1)(iii)(m)	The accounting entries specified may not be entirely compliant with Ind AS 109. The circular also does not cover situations where options are purchased for hedging purposes, in	4	4.3(3)

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
					which case the entries specified may not be applicable. Further, in light of Ind AS 109, detailed prescriptions for a particular product may not be necessary and the RBI may consider withdrawing reference to the FEDAI circular.		
10.	DBOD.No.BP.BC.31 /21.04.157/2008-09	08-Aug-08	Prudential Norms for Off-balance Sheet Exposures of Banks		The RBI instructions that deal with classification and income recognition may need to be reviewed in light of impairment requirements of Ind AS 109	4	4.3(5)
11.	DBOD.No.BP.BC.57 /21.04.157/2008-09	13-Oct-08	Prudential Norms for Off-balance Sheet Exposures of Banks				
12.	DBOD.No.BP.BC.28 /21.04.157/2011-12	11-Aug-11	Prudential Norms for Off-balance Sheet Exposures of Banks				
13.	DBOD.No.BP.BC.31 /21.04.157/2012-13	23-Jul-12	Prudential Norms for Off-balance Sheet Exposures of Banks				
14.	DBOD.No.BP.BC.78 /C.686/91-92	6-Feb-92	Revised Format of the Balance Sheet and Profit & Loss Account		The current financial reporting framework, is based on requirements of the Banking Regulation Act, 1949	7	7.1
15.	DBOD.No.BP.BC.82	12-Feb-					

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
	/C.686-92	92			(Section 29 read with the Third Schedule) (BR Act), supplemented by instructions issued by the Reserve Bank of India (RBI) from time to time and the Accounting Standards issued by the ICAI. These needed to be reviewed and updated in light of the implementation of Ind AS.		
16.	DBOD.No.BP.BC.15 /21.01.002/2000	07-Aug-00	Loans and Advances to Staff - Assignment of Risk-weight & Treatment in the Balance Sheet	1 (ii)			
17.	DBOD.BP.BC.No.81 /21.01.002/2009-10 DBR.BP.BC.1/21.06 .201/2015-16	30-Mar-10 July 1, 2015	Classification in the Balance Sheet - Capital Instruments Master Circular on Basel III Capital Regulations				
18.	DBR.BP.BC.No.31/2 1.04.018/2015-16	16-Jul-15	Deposits placed with NABARD / SIDBI / NHB for Meeting Shortfall in Priority Sector Lending by Banks - Reporting in Balance Sheet				
19.	DBR.BP.BC No.23 /21.04.018/2015-16	1-Jul-15	Master Circular - Disclosure in Financial Statements - Notes to Accounts				
20.	DBOD.No.BP.BC.60 /21.04.048/2005-06	01-Feb-06	Guidelines on Securitisation of Standard Assets	6, 7, 20.1	The treatment specified in the RBI guidelines is asymmetric requiring	8	8.2.1.(1)

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
21.	DBOD.No.BP.BC-103/21.04.177/2011-12	07-May-12	Revisions to the Guidelines on Transfer of Assets through Securitisation and Direct Assignment of Cash Flow	1.5,2.5	immediate recognition of losses and deferred recognition of gains. However, Ind AS 109 provides that on derecognition of a financial asset the difference between the carrying amount measured at the date of derecognition and the consideration received shall be recognised in the profit or loss account. Thus the accounting framework specified in the extant RBI guidelines is inconsistent with the derecognition requirements of Ind AS 109. RBI may consider aligning the accounting framework for derecognition with the principles of Ind AS109. In order to address its concerns as a regulator, RBI may consider using prudential tools/filters such as non-recognition of such profits in computation of regulatory capital as		

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
					also for dividend distribution, etc.		
22.	DBOD.No.BP.BC.2/ 21.04.048/2015-16	01-Jul-15	Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances	Paragraph3 and 4	The extant instructions provide for the deferment of recognition of gains / losses as well as the non-recognition of gains which would not be in alignment with Ind AS 109. The RBI may consider aligning its instructions with Ind AS 109. In order to address its concerns as a regulator, RBI may consider using prudential tools/filters such as non-recognition of such profits in computation of regulatory capital as also for dividend distribution, etc.	8	8.2.1(3)
23.	DBOD.No.BP.BC.72 /21.04.018/2001-02	25-Feb-03	Guidelines for Consolidated Accounting and Other Quantitative Methods to Facilitate Consolidated Supervision	Formats	The format specified in the guidelines dated February 25, 2003 may be inconsistent with the requirements of Ind AS 110.	8	8.3.6(2)
24.	DBOD.No.BP.BC.84 /21.04.018/2007-08	21-May-08	Consolidated Financial Statement		The requirements of Ind AS 110 should be made applicable.	8	8.3.6(3)
25.	DBOD.No.BP.BC.89 /21.04.018/2002-03	29-Mar-03	Guidelines on Compliance with Accounting Standards	Paragraph12.1	The requirements of the RBI guidelines on consolidation procedures for joint	8	8.3.6(5)

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
			(AS) by Banks		ventures need to be modified/ withdrawn since Ind AS111 does not provide for 'proportionate consolidation' method.		
26.	DBOD.No.BP.BC.72 /21.04.018/2001-02	25-Feb-03	Guidelines for Consolidated Accounting and Other Quantitative Methods to Facilitate Consolidated Supervision	Paragraph15 & 21			
27.	DBOD.No.BP.2388/ 21.04.018/2001-02	24-Jun-02	Draft Guidelines for Consolidated Accounting and Other Quantitative Methods to Facilitate Consolidated Supervision	15 , Appendix A, Appendix B			
28.	DBOD.No.BP.BC.72 /21.04.018/2001-02	25-Feb-03	Guidelines for Consolidated Accounting and Other Quantitative Methods to Facilitate Consolidated Supervision	10 and 12	RBI guidelines require that Consolidated Financial Statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to do so, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.	8	8.3.6 (6)

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
					RBI guidelines also provide that if different entities in a group are governed by different accounting norms laid down by the concerned regulator for different businesses then, where banking is the dominant activity, accounting norms applicable to a bank should be used for consolidation purposes in respect of like transactions and other events in similar circumstances. The RBI may consider withdrawing its guidelines. Where an entity has control and the power to direct relevant activities, it is presumed that it would be able to either ensure uniform accounting policies or be able to obtain necessary adjustments to ensure that the consolidation is based on uniform accounting policies.		
29.	DBOD.No.BP.BC.89	29-Mar-	Guidelines on Compliance	10.2	In terms of guidelines contained in RBI	8	8.3.6(7)

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
	/21.04.018/2002-03	03	with Accounting Standards (AS) by Banks		circular reference DBOD.No.BP.BC.89/21.04.018/2002-03 dated March 29, 2003 even though a bank may acquire more than 20% of the voting power in the borrower entity in satisfaction of its advances, it may be able to demonstrate that it does not have the power to exercise significant influence since the rights exercised are protective in nature and not participative. In such circumstance banks may not treat such investments as investments in associates. Further, the guideline states that the test should not merely be the proportion of investment but the intention to acquire the power to exercise significant influence. The Working Group arrived at the conclusion that this aspect may be additionally examined by preparers		

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
					and auditors based on the circumstances of each case rather than based on a uniform regulatory prescription. Therefore, RBI may consider amending this instruction.		
30.	DBR.BP.BC.No.101/ 21.04.132/2014-15	08-Jun-15	Strategic Debt Restructuring Scheme	Paragraph9	In terms of DBR. No. BP DBR.No.BP.BC.101/21.04.132/2014-15 dated June 8, 2015, provides that lending banks acting through a Joint Lenders Forum (JLF) should actively consider change in ownership in cases of restructuring of accounts where borrower companies are not able to come out of stress due to operational/ managerial inefficiencies despite substantial sacrifices made by the lending banks. In order to achieve the change in ownership, the lenders under the JLF should collectively become the majority shareholder by conversion of their dues from the borrower into equity. Further, in terms	8	8.3.6(8)

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
					of the aforementioned circular as the lender acquires such voting power in the borrower entity in satisfaction of its advances under the SDR, and the rights exercised by the lenders are more protective in nature and not participative, such investment may not be treated as investment in associate. The Working Group arrived at the conclusion that this aspect may be additionally examined by preparers and auditors based on the circumstances of each case rather than based on a uniform regulatory prescription. Therefore, RBI may consider amending this instruction.		
31.	DBOD.No.BP.BC.81 /21.04.018/2006-07	18-Apr-07	Guidelines - Accounting Standard 17 (Segment Reporting) - Enhancement of Disclosures	All	Ind AS 108 requires operating segments to be identified inter-alia on the basis of operating results being reviewed by the entity's chief operating decision maker implying that the	8	8.4.1(1)
32.	DBOD.No.BP.BC.89	29-Mar-	Guidelines on Compliance	7			

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
	/21.04.018/2002-03	03	with Accounting Standards (AS) by Banks		segments are to be decided by a bank on the basis of its internal MIS in the context of resource allocation decisions. A set of segments imposed by an external body such as a regulator may be inconsistent with the provisions of the standard.RBI may consider withdrawing its instructions specifying the segments and disclosure formats and banks may follow the requirements of Ind AS 108 for segment reporting. However, keeping in view the opinion of some bankers that it would be in the interest of the banks for RBI to continue to specify segments, it is also recommended that RBI may, if it chooses to withdraw the instructions, like to clarify that the main segments generally observed for banks in India are Treasury', 'Corporate/ Wholesale Banking', 'Retail Banking' and 'Other		

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
					Banking Business' as specified currently. This may give some indicative guidance for banks while not violating the spirit of the standard.		
33.	DBOD.No.BP.BC.76 /21.04.018/2004-05	15-Mar-05	Guidelines on Compliance with Accounting Standard (AS) 11 (revised 2003)'The Effects of Changes in Foreign Exchange Rates'	All	RBI guidelines (such as a subsidiary or branch or associate or Joint Venture of the bank abroad), the functional currency may be different from the reporting currency and it would involve a translation into the reporting entity's presentation currency in terms of Ind AS 21. RBI may need to consider withdrawing the current guidelines on classification of operations as integral or non-integral since it is not relevant in the context of the current IFRS. Further, IAS 21/Ind AS 21 provides guidance on selection of the functional currency which may be supplemented by the ICAI in its educational material at a later stage if required.	8	8.4.1(3)
34.	DBOD.BP.BC.No.76 /21.04.018/2005-06	05-Apr-06	Guidelines on Compliance with Accounting Standard (AS) 11 (revised 2003) - 'The Effects of Changes in Foreign Exchange Rates'	All			
35.	DBOD.No.BP.BC.37	20-Oct-	Charging of Depreciation	All	The extant RBI instructions requiring	8	8.4.1(5)

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
	/21.04.018/2000	00	on Computers - Method and Rate thereof		33% depreciation for computers would not be in line with the principle based Ind AS, where the depreciation has to be based on the useful life of the asset. It is recommended that while RBI need not withdraw the circular, it may clarify that the rates prescribed are indicative and that the banks may comply with the accounting standards in this regard.		
36.	DBOD.No.BP.BC.89 /21.04.018/2002-03	29-Mar-03	Guidelines on Compliance with Accounting Standards (AS) by Banks	8.3.1	RBI may consider amending the definition of related party and key management personnel in its guidelines to incorporate the definition of related party within Ind AS 24. The other clarifications by RBI with respect to related party disclosures on disclosure formats, nature of disclosure, position of nationalised banks and secrecy provisions may continue as there appears to be no inconsistency with Ind AS 24	8	8.4.1(6)

Sr. No	RBI Circular Reference	Date	Subject	Circular Paragraph	Rationale	Chapter	Report Paragraph Reference
37.	DBOD.No.BP.BC.88 /21.02.067/2004-05	04-May-05	Declaration of Dividends by Banks		RBI may need to review the same in light of the implementation of Ind AS. As has been pointed out at various places in this Report, there may be a need to withdraw certain guidelines which are inconsistent with Ind AS. In such cases RBI may consider placing prudential filters such as restrictions on dividend to address its regulatory and supervisory concerns.	8	8.4.1(12)
38.	DBOD.No.BC.8/12.02.001/97-98	22-Jan-98	Valuation of 6 percent Capital Indexed Bonds, 2002, Issued by Government of India		Extant guidelines requiring instruments to be valued at cost are not consistent with Ind AS 113 and may need to be modified to be in line with valuation on fair value basis as required under Ind AS 113	Annex IV	2(d),
39.	DBOD.No.BC.18/12.02.001/2000-2001	16-Aug-00	Valuation of 6% Government of India Capital Indexed Bonds, 2002 by Banks -Change in Wholesale Price Index (WPI) Base Year				

Annex VI: Educational Material by ICAI

In order to ensure uniform practices across the banking industry the ICAI may be requested to issue Educational Material on the following aspects.

Sr. No.	Area	Description	Chapter	Report Paragraph Reference
1	Splitting a financial instrument into two categories	There may be situations where a single financial instrument may have to be split up into two separate classifications. For example, a bank which originates a large term loan, so that it holds a portion to maturity, but sells/ sub-participates a part of the loan to other banks. In such cases, if it is assessed that a loan will in part be sold or sub-participated (which may be evident from the bank's internal policy documents e.g. Credit mandate/approval or historical behaviour), the question arises whether a single financial asset, can be classified into two separate business models – one whose objective is to manage the loan with the intention to sell and the other whose objective is hold the loan to collect its contractual cash flows. As it is already common under IAS 39 for loans to be classified in part as Held for Trading (HFT) or Available for Sale (AFS) and in part as Loans and Receivables (measured at amortised cost), it may be likely that this practice is valid under Ind AS 109 as well, if the parts are being managed under different business models right from initial recognition.	2	2.4.9(3)
2	Elaboration of 'infrequent number of sales'	In order to ensure industry wide uniform and consistent practice, the RBI, being the banking regulator, may consider issuing appropriate guidelines on 'infrequent number of sales' or 'insignificant in value' in the context of Ind AS 109, in consultation with ICAI.	2	2.4.9(5)

Sr. No.	Area	Description	Chapter	Report Paragraph Reference
	or ‘insignificant in value’			
3	Concessional Staff Loans	Ind AS 109 requires initial recognition at fair value. Loans and advances given at concessional rates to staff are not based on market terms and therefore the transaction price cannot be indicative of the fair value, since it includes an element of employee benefits. In line with the Application Guidance to Ind AS 109, a bank may measure the fair value of such a loan as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. The difference may be treated as an employee benefit and expensed accordingly. ICAI may be requested to issue Educational Material further clarifying such situations.	2	2.6.3(4)
4	Separate line item for ‘Exceptional items’ in Profit and Loss Account	In order to facilitate better understanding of the financial statements, a separate line item for ‘Exceptional items’ has been included in the format for Profit and Loss Account. Items included under this line item are those that are significant to an assessment of the financial performance and are exceptional on account of their size, nature and incidence. However, ICAI may be requested to develop educational material in respect of items that may be classified under this line item.	7	7.8.2(g)
5	Accounting for Effects of changes in Foreign Exchange Rate-:	Generally an entity such as representative offices of banks set up abroad that was previously classified as integral as per AS 11/extant RBI guidelines would have the same functional currency as the reporting entity under the provisions of Ind AS 21. In the case of non-integral operations as defined in AS 11/extant RBI guidelines (such as a subsidiary or branch or associate or Joint Venture of the bank abroad), the functional currency may be	8	8.4.1(2)

Sr. No.	Area	Description	Chapter	Report Paragraph Reference
	Classification of Integral and non-integral operations	different from the reporting currency and it would involve a translation into the reporting entity's presentation currency in terms of Ind AS 21. RBI may need to consider withdrawing the current guidelines on classification of operations as integral or non-integral since it is not relevant in the context of Ind AS 21. Further, Ind AS 21 provides guidance on selection of the functional currency which may be supplemented by the ICAI in its educational material at a later stage if required		
6	Deferred Tax Assets and Deferred Tax Liabilities	The RBI vide its circular BP.BC.77/21.04.018/2013-14 dated December 20, 2013 on '*Deferred Tax Liability on Special Reserve created under Section 36(1) (viii) of the Income Tax Act, 1961'* has advised banks to create deferred tax liability (DTL) on Special Reserve created under section 36(1)(viii) of the Income Tax Act, 1961. These instructions are based on the current AS 22: *Accounting for taxes on income* issued by the ICAI. AS 22, being based on the pre-1996 IAS 12 uses an income statement liability method whereas the current IAS 12 uses balance sheet liability method. The ICAI may issue clarification in the context of Ind AS 12. The issue of DTL/DTA in respect of HTM investments and provision for bad and doubtful debts in the case of banks has been examined by the Expert Advisory Committee (EAC) of the ICAI in the past. Given that these issues are specially relevant to the banking industry, the ICAI may consider issuing including issuing clarifications on these aspects also	8	8.4.1(11)

Annex VII: Legislative Amendments

The Working Group suggests the following amendments to the provisions of the Banking Regulation Act, 1949.

Sr. No.	Relevant provisions	Rationale for withdrawal/amendment	Chapter	Report Paragraph Reference
1.	Section 15: Restrictions as to payment of dividend	Certain sourcing costs for raising deposits and borrowings will be required to be capitalised under Ind AS / IFRS compared to the current practice and requirement for immediate recognition in profit or loss under Indian GAAP / banking guidelines. The provisions of Section 15 of the Banking Regulation Act would also need to be either modified or be interpreted in such a manner to allow banks to capitalise / defer certain origination costs that qualify as transaction costs associated with the issuance of liabilities that are not classified as fair value through profit or loss.	3	3.4.3(2)
2.	Section 29 (4) and Third Schedule	It is recommended by the Working Group that the Central Government may consider delegating its power of amending the Third Schedule under section 29(4) to the Reserve Bank of India, on lines similar to the authority delegated to Insurance Regulatory and Development Authority Third Schedule to the Banking Regulation Act 1949 need suitable amendments to facilitate the changed presentation.	3 7	3.6.1(2) ,3.6.1(3) 7.8.4, 7.8.7

Annex VIII: Survey of International Practices for Presentation of Financial Statements

Sr. No.	Aspect	Barclays PLC	BNP Parbas	Deutsche Bank AG	HSBC Holdings plc	Lloyds Banking Group plc	The Royal Bank of Scotland Group plc	Standard Chartered PLC	UBS Group AG
1.	*What are the titles of the financial statements in order of presentation?* In terms of paragraph 10 of IAS1, an entity may use titles for the statements other than those used in the Standard. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'. Further, IAS 1 does not specify the order in which the various statements should be presented	1. Income Statement 2. Statement of Comprehensive Income 3. Balance Sheet 4. Statement of Changes inequity 5. Cash flow statement 6. Notes to the financial statements	1. Profit and Loss Account 2. Statement of Net Income and Changes in Assets and Liabilities Recognised Directly in Equity 3.Balance Sheet 4.Cash Flow Statement 5.Statement of Changes in Shareholders' Equity 6.Notes to the financial statements	1. Statement of Income 2. Statement of Comprehensive Income 3.Balance Sheet 4. Statement of Changes of Equity 5.Statement of Changes of Cash Flows 6. Notes to the Consolidated Financial Statements	1. Income Statement 2. Statement of Comprehensive Income 3. Balance Sheet 4. Statement of Cash Flows 5. Statement of Changes in Equity 6. Notes on the financial statements	1.Income Statement 2. Statement of Comprehensive Income 3. Balance Sheet 4. Statement of Changes in Equity 5.Cash Flow Statement 6. Notes to the financial statements	1. Income Statement 2.Statement of Comprehensive Income 3. Balance Sheet 4. Statement of Changes in Equity 5. Cash Flow Statement 6.Accounting policies 7.Notes on the financial statements	1. Income Statement 2. Statement of Comprehensive Income 3. Balance Sheet 4. Statement of Changes in Equity 5. Cash Flow Statement 6. Notes to the financial statements	1. Income Statement 2. Statement of Comprehensive Income 3.Balance Sheet 4.Statement of Changes in Equity 5.Statement of Cash Flows 6.Notes to the financial statements
2.	*What is the order of items in the Balance Sheet?* In terms of paragraph 60 of	Liquidity	Liquidity	Liquidity	Liquidity	Liquidity	Liquidity	Liquidity	Liquidity

Sr. No.	Aspect	Barclays PLC	BNP Parbas	Deutsche Bank AG	HSBC Holdings plc	Lloyds Banking Group plc	The Royal Bank of Scotland Group plc	Standard Chartered PLC	UBS Group AG
	IAS 1, an entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.								
3.	*Is the presentation of financial assets and financial liabilities in the Balance Sheet as per asset class or does it follow a mixed approach (i.e. as per IAS 39 categories and asset class/type)?*	Mixed approach	Mixed approach	Mixed approach	Mixed approach	Mixed approach	Asset type	Asset type	Mixed approach
4.	*Is the Profit or Loss and OCI a single statement or*	Separate statements	Separate statements	Separate statements	Separate statements	Separate statements	Separate statements	Separate statements	Separate statement

Sr. No.	Aspect	Barclays PLC	BNP Parbas	Deutsche Bank AG	HSBC Holdings plc	Lloyds Banking Group plc	The Royal Bank of Scotland Group plc	Standard Chartered PLC	UBS Group AG
	are they presented as separate statements? In terms of paragraph 10A of IAS 1, An entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section. An entity may present the profit or loss section in a separate statement of profit or loss. If so, the separate statement of profit or loss shall immediately precede the statement presenting comprehensive income,								

Sr. No.	Aspect	Barclays PLC	BNP Parbas	Deutsche Bank AG	HSBC Holdings plc	Lloyds Banking Group plc	The Royal Bank of Scotland Group plc	Standard Chartered PLC	UBS Group AG
	which shall begin with profit or loss.								
5.	*In the Profit or Loss Statement, is the analysis of expenses, based on nature or function?* In terms of paragraph 99 of IAS 1, An entity shall present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.	Nature	Nature	Nature	Nature	Nature	Nature	Nature	Nature
6.	*In the statement on OCI, are the items net of related taxes or before related tax effects?* As per paragraph 91 of IAS 1, An entity may present items of other comprehensive income	Items in OCI before tax effects, with one amount shown for the aggregate amount of income tax relating to those items.	Items in OCI net of related tax effects	Items in OCI before tax effects, with one amount shown for the aggregate amount of income tax relating to those items.	Tax effect of each item in OCI disclosed along with the item itself	Tax effect of each item in OCI disclosed along with the item itself	Items in OCI before tax effects, with one amount shown for the aggregate amount of income tax relating to those items.	Items in OCI before tax effects, with one amount shown for the aggregate amount of income tax relating to those items.	Tax effect of each item in OCI disclosed along with the item itself

Sr. No.	Aspect	Barclays PLC	BNP Parbas	Deutsche Bank AG	HSBC Holdings plc	Lloyds Banking Group plc	The Royal Bank of Scotland Group plc	Standard Chartered PLC	UBS Group AG
	either (a) net of related tax effects, or (b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those items.								

List of Select Abbreviations

AFS	Available for Sale
AGM	Assistant General Manager
ASB	Accounting Standards Board, Institute of Chartered Accountants of India
BR Act	Banking Regulation Act, 1949
CGM	Chief General Manager
CRAR	Capital to Risk Weighted Assets Ratio
CRR	Cash Reserve Ratio
DBR	Department of Banking Regulation (formerly Department of Banking Operations and Development (DBOD)), Reserve Bank of India
DBS	Department of Banking Supervision, Reserve Bank of India
DGM	Deputy General Manager
DNBR	Department of Non-Banking Regulation, Reserve Bank of India
DTL	Demand and Time Liabilities
EIR	Effective Interest Rate
EU	European Union
FASB	Financial Accounting Standards Board of United States of America
FEDAI	Foreign Exchange Dealers' Association of India
FIMMDA	Fixed Income Money Market and Derivatives Association of India
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value through Profit and Loss Account
GAAP	Generally Accepted Accounting Principles
GM	General Manager
GoI	Government of India
HFT	Held for Trading

HTM	Held to Maturity
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBA	Indian Banks' Association
IBPC	Inter-Bank Participation Certificates
ICAI	Institute of Chartered Accountants of India
IDMD	Internal Debt Management Department, Reserve Bank of India
IFRS	International Financial Reporting Standards
Ind AS	IFRS converged Indian Accounting Standards notified by Ministry of Corporate Affairs, Government of India
IRB	Internal Ratings Based approach
IRDA	Insurance Regulatory and Development Authority
LCR	Liquidity Coverage Ratio
MCA	Ministry of Corporate Affairs
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non Banking Finance Company
NHB	National Housing Bank
OCI	Other Comprehensive Income
RBI	Reserve Bank of India
SEBI	Securities and Exchange Board of India
SIDBI	Small Industries Development Bank of India
SLR	Statutory Liquidity Ratio
SOCE	Statement of Changes in Equity
SPE	Special Purpose Entity
UCB	Urban Cooperative Banks