

Convergence in India- IASB's perspective

Good morning to each and every one of you. I want to thank CII for inviting me to share my thoughts today on this rather important subject. I begin my prepared remarks with the standard disclaimer that the views expressed herein are entirely mine and they may or may not reflect the views of the IASB. I do ask your indulgence to let me share a couple of thoughts with my fellow countrymen in the spirit of open discussion. Yes, I am an Indian by birth and citizenship; as a result, I will be far more candid with you all on some of the issues than somebody who would be speaking solely as a representative of the IASB. Therefore, please allow me to speak in my personal capacity. I do hope we will have an open discussion during this meeting and afterwards. When I went to America to study, everybody found my name Prabhakar Kalavacherla to be very much of a mouthful. I therefore shortened it to PK. It has served me well, as it is easy to say and for Indian friends they know that mai har waqt PK hi baat karta hoon. Jokes apart, friends, if you want to send me an email it is simple, pk@ifrs.org

Given the limited time that I have let me share my views under two broad themes:

1. Convergence or adoption? Questions that keep coming up at various international forums about India's approach
2. Role of India in the global standard setting process- how can CII can help all of us

Convergence vs. adoption- To put it in one sentence, we strongly encourage adoption as against convergence. Some countries have taken the route of convergence as a means of ultimate adoption. I am not talking about that. What is the reason for the IASB to have that view? Is it self-serving? The answer is not really. For those of us who have spent a lifetime in accounting and finance know that at the end of the day the role of accounting is to provide necessary tools to help users of the financial statements to predict the nature, timing and uncertainty associated with future cash flows of an entity. One can therefore say that, if properly applied, accounting can help to reduce the cost of capital by improving the transparency of financial information about an organization and its operations. That is precisely the reason why several Indian companies adopted US GAAP in the late 1990s to raise capital in foreign markets. Having done several of those listings from India, I don't recollect whether there was ever any discussion on whether these Indian companies should adopt or converge to the US GAAP. The reason is, by adopting US GAAP, Indian companies were able to speak the language that was understood by international investors.

Adoption enables a common language to be spoken and improves capital flows across borders with relative ease. Increased capital flow will reduce the cost of capital, and reduced cost of capital can enable more employment creation. This is not just empty rhetoric; there is empirical research to back it up. Therefore to sum up, investors seek transparency and comparability for them to make informed business decisions and businesses seek lower cost of capital and it is the role of common high quality financial reporting like IFRS to enable that to reach the best equilibrium.

It was also the aim of the G20 to usher in more robust (and common) language of financial reporting, and this was reinforced by the recent financial crises, so as to bring in more stability to which India subscribed and endorsed.

Coming to IND AS, there is quite a degree of surprise in many international settings, including at the IASB, about India's approach to convergence with IFRS. Several analyses indicate that there may be more than 40 differences between as-notified IND AS and IFRS. I have personally seen one analysis showing 80+ differences. For my own part, I have seen few differences come up in real-world debates, and there are ways to address any differences in a spirit of give and take. Nevertheless, I am not sure how best to chip away at such an apparently large number of differences. I ask for your suggestion on this matter. In such an environment, I am frequently asked many questions and some of them are:

1. What is the root cause for India's decision? In other words, is it entirely a technical disagreement?
2. Is it because US, Japan and China have not yet fully adopted and therefore India is also hedging its decision?
3. Is it because the IASB is a private sector organization?
4. What is India's history of accounting standard-setting? Does it do its own research or is it largely dependent on the international body of knowledge? What about its due process? In other words, is there a rigorous process of standard-setting, with open meetings that includes investors, with appropriate comment period and support for its decision with published bases for conclusions?
5. Who decides carve-outs? Have the views of all parties being considered?

I keep telling these people; that we as Indians value our independence and freedom of expression. However, I do not profess to know all the answers as to why India has decided what it has decided, but it might be helpful to reflect on some of the questions and find out more.

It is true that as of today, the US and Japan have not announced full adoption of IFRSs in place of their existing standards. But that is only the headline and the real story is much more than that. The US allows all its foreign filers (there are approximately 1,000 foreign filers as of December 31, 2009) to report there under IFRS without reconciliation, as long as it is IFRS without any carve-outs. It is the only other accounting standard that is on a par with US GAAP, as far US is concerned. Already several foreign filers, and include some of the largest companies in the world with huge market capitalization, are able to avail themselves of that benefit and continue to meet the listing requirements in the US. With Canada fully adopting IFRS, the number of foreign filers availing this route is going to be around 90%. The Chairperson of the US SEC has publicly stated that the US will be making an announcement by the end of this year. Speculation is that it will incorporate IFRS into the US filing system in some form or other within a couple of years. There are strong rumours that the SEC will ask the US FASB to stop working on new standards. Japan will be making an announcement about mandatory adoption in 2012. It is already allowing domestic Japanese companies to voluntarily adopt IFRS and we hear that for example Sumitomo Corporation has voluntarily adopted for the year ended March 31, 2011. I am not sure how Japan can withdraw after giving that voluntary

option to its companies. I have not specifically spoken about China; according to a study released by China the net income or balance sheet differences between IFRS and the Chinese version would be less than 1% in almost all the cases. In addition, they are very active in IASB's rule-making and in the activities of AOSSG. So, we have to remind ourselves that with these countries incorporating IFRSs into their accounting system that we will be left with very few countries in the world that have not incorporated IFRS into their respective reporting system.

Let me deal with another question that was asked in this context, specifically the financing of the IASB. The issue of financing is closely tied to the issue of governance and independence. It is claimed by some that the IASB's status as a private sector organization largely funded by voluntary contributions has impaired its ability to make independent decisions. This is simply not the case. What is clear is that any standard-setter's funding system must maintain the independence of the standard-setting process, while providing the necessary financial resources. In this regard, the IFRS Foundation, the IASB's oversight body, has made much progress.

Since 2006, the Trustees have established national financing regimes, proportionate to a country's relative Gross Domestic Product, that establish a levy on companies or provide an element of publicly supported financing. As a result, today, the great majority of the Foundation's finances are based on such regimes. Voluntary contributions make up less than 1/3 of the organisations and are limited to the United States. The Trustees have been particularly successful in establishing funding regimes in Asia-Oceania, Europe, and are making gradual progress in Latin America. The US issue will be solved as part of any US SEC decision on IFRS adoption.

Beyond the move away from voluntary based systems, the Foundation has also provided enhanced transparency around its funding. All elements of funding are listed. Also, the strategy document released by the trustees, which has been coordinated by all the regulators on the monitoring board, is very clear that board members cannot be appointed for their affiliation to a country or an organization. Briefly, Monitoring Board sits on the top of trustees and their role is interacting with trustees on the IFRS foundation aspects and they all are regulators. The current members are the 1) US; 2) EU 3) Japan and two members from IOSCO. I hope that India will very soon join that group.

Lots of people ask me whether India has a standard-setting body that is very robust like the US, UK or Australia? The reason for their inquiry is whether any independent research is undertaken in India or if it borrows ideas from others. I think India has one of the most talented group of individuals and there are no two ways about it. As far as standard-setting is concerned, the starting point for the Indian standards is international standards. There is nothing wrong about it and that is the purpose of being a member of an international community. When these people are asked why they would be asking these questions, it is evident that they are perplexed about the carve-outs and the reasons behind them – and more so what the investor community feels, both Indian and international that participates so heavily in the Indian capital markets. Have these carve-outs being discussed in a manner so that international community can benefit from its deliberations and perhaps change international standards? Why does India not present the basis of conclusions for its standards to argue its reasons for divergence with international standards? Does the

outreach and feedback by the various stakeholders in India validate the divergence? How is the investor focus and interest kept in mind, and what is their participation? For instance, as a board member, I have a right to dissent to the issue of a standard as long as I satisfy myself that a new standard as a whole is not an improvement to an existing standard. If I am satisfied that is the case, I have to put in my dissent in writing for the whole world to see. That is a high threshold, but it is an important tool that we have to demonstrate our independence. I expect the same standard for all the countries that choose to carve out.

These are no doubt important questions that need to be answered. In the interest of time, let me turn to another important area, India's role in international standard-setting. I am one of those dreamers who would like to see, by the year 2020, India becoming an important financial hub just like Hong Kong, New York or London. To make that happen, there are several important steps that have to be taken. One of them is having accounting standards that are exactly same as international standards, otherwise potential companies will go elsewhere to raise capital as they may not want to incur the extra cost of complying with two sets of books- IFRS and Indian GAAP. I feel this generation of decision-makers have an important responsibility to ensure such foundation stones are laid with future generations in mind—I think the baton needs to be handled with care, so as to be able to pass it on a firm footing to make the dream into reality. In this regard, I think we need to ensure India's viewpoint is heard not just because India is one of the fastest growing countries in the world, but due to the strength of its arguments on a given topic. I am amazed for example that there is so much discussion about agriculture accounting and Malaysia has taken the lead in terms of developing an alternate model. I notice that in many international forums, countries with far lower GDP than ours or countries with fewer numbers of accounting personnel than we have are more active in furthering higher quality accounting standards. India's lack of contribution to its fullest capacity is something we can rectify as we have so much to contribute and we can improve the body of accounting standards worldwide. I have come to believe that if we as Indians have a problem with an accounting standard on technical grounds, perhaps most of the world may have the same problem. It is therefore imperative that India participates more vocally on a sustained basis. In this regard, I am happy to let you all know that I am seeing the beginnings of India's efforts. There is lot more ground to cover and corporate India has lot to contribute to this.

Thus, I call for a concerted effort to enhance India's contribution to the global accounting standards and thereby reducing India's reasons for carve-outs, because India's research, by taking into account the views of all stakeholders, will be able to have a far better chance of persuading other international constituents.

So, to sum it up, I have two suggestions:

1. Give Indian companies option of full IFRS while keeping the carve outs. Let the market decide what is correct. In five years, India can revisit the issue and see what should be done
2. Let us get more actively involved in the global standard setting and for that CII needs to be more active.

Thank you for your valuable time. I am available on the sidelines if you have any comments or suggestions. Let us together put India on top of the map of the world's leading contributors in thought on accounting and finance. We can and should do it. Namaste and Jai Hind.