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Implementing IFRS from the perspective of public sector banks in India

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Abstract

This study examines the perception of Public Sector Banks in India towards the implementation of IFRS. The paper provides insights into the IFRS adoption process based on a questionnaire sent to Public Sector Banks in India in 2015. The 291 responses received indicates: (1) Loan Impairment will affect the bank's financial performances; (2) transparency of the results of the Banks will be increased; (3) global operations of the Banks will be impacted in positive direction; (4) the accessibility of the Global Capital Market will increase; (5) corporate governance aspect of the banks will increase; (6) the quality of financial information provided to the regulators and shareholders will improve; (7) the comparability aspect of financial statements will increase; (8) market capitalization of banks will improve; (9) the training needs of the staff will increase; (10) the opportunities for the accounting professionals will expand; (11) the flow of FDI in the banking sector will increase

Keywords: Public Sector Banks (PSBs), IFRS, Ind AS, ICAI, NACAS, IAS

1. INTRODUCTION

International Financial Reporting Standards (IFRS) are a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. These standards enable the investors and other users of the financial statements to compare the financial statements on a like-for –like basis with their international peers. In India, Accounting Standards are formulated by the Council of the ICAI (Institute of Chartered Accountants of India) through its Accounting Standards Board. Thereafter, those Accounting Standards are considered by the National Advisory Committee on Accounting Standards (NACAS) of the Ministry of Corporate Affairs constituted under the Indian Companies Act, 1956 (now amended in 2013), which recommends the Standards to the Central Government for notifying under the Act. The Government, on accepting the recommendation of the Committee, notifies the Standards under the Act by publishing them in the Official Gazette.

At present, 28 Accounting Standards, which are based on old IASs, have been notified under the Companies Act, 1956. In a move towards convergence with IFRSs, in 2007, the ICAI commenced the process of developing a complete set of Accounting Standards that are 'converged with' IFRSs – to be known as Indian Accounting Standards or Ind ASs. India has decided to converge its accounting standards with IFRSs issued by IASB instead of adoption of IFRSs. Thirty-five Ind ASs corresponding to IFRS in force on 1 April, (2011) (with the exception of IFRS 9 Financial Instruments, IAS 26 Accounting and Reporting by Retirement Benefit Plans, and

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IAS 41 Agriculture) were placed on the website of the Ministry of Corporate Affairs. However, they have not been notified under the Companies Act, 1956. Ind ASs has certain modifications to IFRSs to reflect 'Indian conditions'. The ICAI and the Government had initially decided to implement the converged Ind ASs from 1 April (2011). However, that date has been deferred pending resolution of certain issues including tax issues. In the meantime, the ICAI has continued its endeavour to formulate/revise Ind ASs based on IFRSs issued or revised after 1 April, (2011).

The revised Companies Act 2013 will require consolidated financial statements and will establish a two-tier system of accounting standards, Ind ASs converged with IFRSs for listed and large companies and the existing Accounting Standards for smaller companies.

Government of India through Ministry of Corporate Affairs (nodal Ministry for Ind AS) on 16 February 2015 by Gazette Notification notified the Companies (Indian Accounting Standard) Rules 2015 which has been come into force on 1 April 2015. It says that:

(i) any company may comply with the Indian Accounting Standards (Ind AS) for financial statements for accounting periods beginning on or after 1st April, 2015, with the comparatives for the periods ending on 31st March, 2015, or thereafter;

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-
   (a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;
   (b) companies other than those covered by sub-point (a) of point (ii) and having net worth of rupees five hundred crore or more;
   (c) holding, subsidiary, joint venture or associate companies of companies covered by sub-point (a) of point (ii) and sub-point (b) of point (ii) as the case may be; and

(iii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2017, with the comparatives for the periods ending on 31st March, 2017, or thereafter, namely:-
   (a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore;
   (b) companies other than those covered in point (ii) and sub point (a) of point (iii), that is, unlisted companies having net worth of rupees two hundred and fifty crore or more but less than Rupees five hundred crore.
   (c) holding, subsidiary, joint venture or associate companies of companies covered under sub-point (a) of point (iii) and sub- point (b) of point (iii), as the case may be

The notification also talks about certain exemptions for implementing Ind AS for certain types of companies like Insurance Companies, Banking Companies and Non-Banking Finance Companies. These are not required to prepare their financial statements as per the IFRS/Ind AS as of now.

The objective of this study is to examine the process of implementing IFRS by Public Sector Banks in India, including the approach which these PSBs take to conversion, the impact of adopting IFRS on the financial statements, and the perceived benefits and challenges of implementing IFRS. Understanding these issues should be helpful to all users of the financial statements, including regulators facing decisions regarding individual accounts and unlisted companies.

The remainder of this paper is organized as follows. Section 2 discusses relevant prior research. Research Methodology used is presented in Section 3. Section 4 talks about the research design. Discussion and limitations are covered in section 5.

2. LITERATURE REVIEW

Several studies have addressed issues related to accounting harmonization in foreign countries like Europe, USA, China, Russia etc. and its impact on comparability and transparency of financial statements. In India also, a number of studies have been conducted on the impact of implementation of IFRS/Ind AS.

Jean jean, Thomas and Stolowy, Herve, (2008) analysed in their work whether the mandatory introduction of IFRS standards had an impact on earning quality and more precisely on earning management by studying 3 countries viz. France, UK and Australia. They find that pervasiveness of earning management did not decline and in fact increased in France (behavioural issues). They confirm that sharing rules are not sufficient in itself to create a common business language but management incentives and national institutional factors play an important role in framing financial reporting characteristics. K S, Muthupandian, 2008 analyzed in his work the current status of implementation or more specifically convergence of IFRS with local gap in various countries viz. US (fully converged), Canada (2011), Japan (2011), China (2007), Russia (2004), Brazil (2010), Ghana (2007), Korea (2011), Hong Kong (2005), Philippines (2005), Australia (2005), New Zealand (2007), Singapore (2003), India (Not yet converged)

Similarly, Chan, Wai-Meng and Devi Sushila S., (2010) analysed the impact of IFRS on the divisible profits by taking the corporate law's definition of divisible profits in 6 countries viz. UK, Australia, New Zealand, Singapore (all converged with IFRS), India and Malaysia (not yet converged with IFRS). They concluded that IFRS will disturb the definition of divisible profits by including unrealized gains based on fair accounting into the arena of profits and thus may not be in the best interest of companies. Agostino, Mariarosaria, Drago, Danilo and Silipo, B., Damiano, (2010) investigated the market valuation of accounting information in the European Banking Industry before and after the adoption of IFRS and they found that introduction of IFRS enhanced the information contents of both earnings and book value for more transparent banks. By contrast, less transparent entities did not experience significant increase in the value relevance of the book value.

Swaminathan, Shobhana and Sindhu, (2011) described the effects on financial statements of the convergence to IFRS by taking a case study on Wipro Technologies Inc. and concluded that IFRS is fair value oriented and Balance Sheet oriented accounting where there are more transparent disclosures and Indian GAAP has conservative approach. Firoz, Mohammad, Aziz, Ansari, Akhtar, Kahkashan, (2011) described the impact of IFRS on Indian Banking sector by taking various areas like compliance burden, Tax reporting practices, Information Technology, Financial Instruments, HR, Impairment in advances, Investments, Derivatives and Hedge Accounting, Consolidation of Financial Statements. Lopez-Espinosa, Morino, A., Perez de Gracia, Fernando, (2011) highlighted the impact of accounting standards on Net Interest Margin (NIM) by using multi way cluster estimation methodology and cross sectional analysis across 15 different countries (Argentina, Belgium, Brazil, France, Germany, Indonesia, Japan, Mexico, Netherland, Poland, Republic of Korea, Russia, Spain, UK, US) during 1999-2008 period with annual data. They concluded that accounting numbers under IFRS are of high quality which results into reduced NIM which they observed is good for the country.

Bhattacharjee, Dipanjan, (2011) presented in his conceptual paper the adoption of IFRS in India is associated with reduced earning management which has been defined as "the active manipulation of earnings towards a predetermined target". He concluded that just focusing on accounting standards alone is misleading and incomplete. He found that although accounting standards may control earnings management in some cases, it doesn't necessarily mean that a country with high quality accounting standards will also have high-quality reported financial information and thus low-earning management. Cole, Vicky, Branson, Joel and Breesch, Diane, (2011) contributed by determining by what extent auditors, analysts and other users of European IFRS financial statements believed that these statements were comparable and what they perceived to be most important problem areas when it came to comparability. They concluded that only 41% of respondents believed that all European IFRS financial statements are comparable.

With respect to comparability, respondents perceived 13 areas as problematic like derivative financial instruments and hedging, Fair Value Measurement, impairment of financial assets, critical judgments and key sources of estimating uncertainty and goodwill, etc. The 3 main issues that appeared in all 13 problematic areas were interpretation differences, subjectivity and disclosure differences, related to both content and location within the financial statements. Jain, Pawan, (2011) tried to analyse the available information on IFRS in India through his paper "IFRS implementation in India: Opportunities & Challenges". He also discussed IFRS adoption in India and its utility, challenges and possible ways for overcoming those challenges in the implementation of IFRS in India. McEnroe, E., John, & Sullivan, Mark, (2011) reported on the results of the survey of individual investors' attitude towards the adoption of IFRS by the non-US Issuer and consequently exempting them to reconcile to US-GAAP. They concluded that US investors are satisfied with the current US accounting model and do not desire a movement toward the adoption of IFRS. Cascino, Stefano and Gassen, Joachim, (2011) in their paper titled as "Mandatory IFRS adoption and accounting comparability" suggested that while mandatory adoption of IFRS increases the comparability of some prominent balance sheet line items across countries, it has no clear effect on the cross-country comparability of earnings attributes. They investigated the IFRS measurement and disclosure compliance choices for a hand collected sample of German and Italian Firms and they found that predictable country, region and firm level incentives continue to shape the outcome of the financial reporting process and thus limit the cross-sectional comparability of financial accounting information.

Thapa, Shankar, (2012) discussed in his conceptual paper, the impact of IFRS on Indian Banking Industry by specifying the benefits and challenges. Benefits specified are better global comparability, better access to international capital market and lower cost of capital, easy cross border listing, avoidance of multiple reporting, better quality of financial reporting, economic growth, and opportunities for accounting professionals. On the other hand, challenges of IFRS specified are technical challenges (such as loan impairment, hedge accounting, fair value, consolidation of financial statements, financial instruments, tax reporting practices) and other challenges (such as amendment to existing laws, shortage of trained & experienced resources, creation of awareness, measurement of business performance, complexity in financial reporting and increased initial costs).

Papadamou, Stephanos and Tzivinikos, Trifon, (2012) estimated market rate, exchange rate and interest rate risk of Greek Financial Institutions and to explore the relationship between market-based measures of risk and accounting variables before and after the adoption of IFRS to examine whether IFRS introduction enhances the information contents of accounting data. They concluded that only market risk affects the Greek banks over the period 2000-2009, while the interest rate and exchange rate risk affects them occasionally. Further, they concluded that the transition towards more transparent accounting systems increases the risk relevance of accounting variables. Lasmin, (2012) examined the unwanted effects of IFRS adoption on international trade and investments in developing countries and concluded that adopting IFRS doesn't significantly lead to higher volumes of international trade and investments in developing countries due to various difficulties faced by these countries in adopting IFRS. Gordon, Lawrence, A., Loeb, Martin, P., and Zhu, Wenjie, (2012) assessed the impact of adopting IFRS on the overall country FDI inflows and to determine if this impact varies based on whether a country is classified as having a developing or developed economy. Based on an empirical study, they found that the overall FDI inflows are positively associated with a country's decision to adopt IFRS, but only for the developing economies and not for the developed economies. Ramanna, Karthik, (2012) in his working paper on "The International Politics of IFRS Harmonization" stated that the politics of the country influence its reporting standards. He justified his idea by taking example of Canada, China and India. In terms of India, he stated that India is inclined towards the 'convergence' of IFRS and not towards 'harmonization' of IFRS. He further stated that convergence based IFRS harmonization can be viewed as posing a serious threat to the conceptual goal of 'one global accounting'.

Gupta, Amit, (2014) in his paper on "Transition to IFRS or Ind AS in India" discussed the IFRS adoption process in India. He also stated various benefits of IFRS viz. increases global transparency, increases accessibility to foreign capital market, elimination of duplication of work and economic growth as well as the problems in implementing IFRS in India viz. Technical Hurdles, multiple regulators, shortage of trained human resource, lack of awareness and incremental cost.

3 RESEARCH METHODOLOGY

In the current research, quantitative research methodology has been used. Both univariate and multivariate techniques have been used to meet the objectives of the research. The current study starts with an objective approach to the research at each step of the research process. As the aim was to find out major issues and challenges in implementation of IFRS system in India so first an attempt was made to find out an instrument that can identify these issues and challenges objectively. Since no satisfactory instrument was found so a decision was made to construct the questionnaire that can help in identifying the major issues and challenges in implementation of IFRS system in India.

3.1 Instrument Development

A questionnaire was developed based on the review of existing literature, feedback of experts and personal experiences of the researcher that can identify the key human perception and other issues involved in implementation of IFRS system in India. It contained 32 items measuring various aspects of implementation of IFRS accounting standards, like awareness of banking staff about the IFRS accounting standards, precursors and prospects of implementing such measures among others. However, a significant portion of the questionnaire was devoted to assessing the impact of implementation of IFRS accounting system. It was hypothesized that human factors like one's own perception or attitude about such standards vis-a-vis the effect on the banking process will be the important determinants of perceived impact of implementation of such accounting standards. Also, since

IFRS accounting norms are voluntary in nature till know (up to 2016 for banks) for the purpose of adoption so the perception of subjects responding the survey will be of importance.

3.2 Research Design

Research design refers to the overall plan of the experiment or its blueprint. In the current research the one major research design that has been used is known as *between group design*. Between Group Design is a kind of research design in which variances in the properties are compared across the groups. In the current research there were many subgroups based on age, gender, experience, designation and type of bank and it was important for the purpose of research to find out whether the perceived differences in the impact of implementation of IFRS system are stemming from the demographic differences of the participants. To test this, different subgroups were created and they were compared by using suitable statistical tests which are discussed in the following sections.

Another type of research design which might be implied within this research can be termed as *correlational research design*. Though correlation has not directly been used in the research but the linear regression model has been used to see if demographic factors are having any causative impact on the dependent variable, i.e., perceived impact of the implementation of IFRS accounting standards in India. Regression models are built over the correlational matrix so it's important to show that the variables are significantly correlated with each other, and if so, there is a suitable case for going for regression analysis.

Another way of looking at the research design of this research can be looking at it through the exploratory glass. Since the major aim of current research was to find out or explore the underlying latent factors that might be determining a subjects' perception toward the impact of implementation of IFRS accounting standards in Indian context, so an *exploratory research design* has also been utilized in later parts of research. To fulfill this objective an exploratory factor analysis has been carried out whose details with major statistical treatment has been discussed in following sections.

3.3 Sampling

Of the two available methods of sampling i.e. probability and non-probability sampling, purposive sampling method has been followed which is a type of non-probability sampling method. The probability sampling method has not been followed because it was not possible to exercise randomization of banking employees or professionals responding to the questionnaires based on some suitable probability criteria. To approach the suitable subjects for filling the questionnaire permission has to be taken from the relevant organizations and the choice of subject was dependent on the convenience of access and the suitability of the subjects for the research diagnosis. Hence, purposive sampling method has been followed in the research.

3.4 Sample size

In the current study data was collected from 301 subjects out of which responses of 291 subjects were found to be valid. So, the sample size for current research can be called to 291. The questionnaire that has been used in the research contained 32 items of which three items were deleted before going for item analysis as their response patterns were completely different as compared to other items of scale.

Another major statistical technique used in the current research was linear regression containing 5 predictors (gender, age, designation, organization, experience) and one dependent variable (perceived impact of implementation of IFRS accounting standards). The sample size sufficiency for this was calculated by using another software package called G-power which for a moderated effect size (.15) and α = .05 for 5 predictors gave a sample size of 138 sufficient for carrying out the linear regression analysis with power of .95. Graphical representation for the central and non-central distribution for this has been shown below:

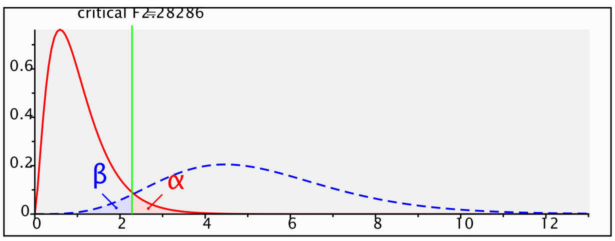

Fig. 1. Graphical representation for the central and non-central distribution for 5 predictors (α = .05).

The actual sample size used for regression analysis in the research was 291 which are more than the prescribed criteria obtained after power analysis, so we can say sample size was sufficient for all kind of major statistical tests employed in the current research.

3.5 Variables in the Study

The demographic variables like age, gender, designation, geographical region, type of bank have been the independent variable of the study while the perceived impact of implementation of IFRS accounting standards was the dependent variable. The dependent variable was created after doing item analysis and factor analysis of the items of the questionnaire. The items that showed significant reliability and suitable factor structure after factor analysis were added to create the perceived impact factor. The demographic variables have been measured on nominal and ordinal scales of measurement while the dependent variable was measured on the interval scale of measurement. The following table gives the details of variables in the study:

Table 1. Description of independent/dependent variables used in the study

Independent/demographic variables		**Dependent variable**
Name of variable	**measurement scale**	Perceived impact of implementation of IFRS accounting standards. It was measured on interval scale.
Age	Ordinal scale	
Gender	Nominal scale	
Years of Experience	Ordinal scale	
Designation	Ordinal scale	
Name of bank	Nominal scale	
Qualification	Nominal scale	
Location	Nominal scale	

3.6 Data Collection

The data was collected from all major bank (PSBs) employees across all major geographical regions of India. The detailed description of all these banks along with their number of respondents and location has been given in the following section. The data was collected after taking permission from the concerned bank and briefing subjects about the purpose of research. Both electronic as well as in-person method for data collection was used wherever appropriate for the situation.

3.7 The Research Hypotheses

As stated above since the research was exploratory in nature so no specific hypothesis was tested for group differences. However, following research hypotheses were implied and confirmed after the analysis:

H1: Demographic variables (like age, gender, experience, designation, and type of organization) have causal effect on the way employees perceive IFRS accounting norms will impact Indian banking sector.

Hypothesis H1 can be further broken down into sub-hypotheses specifying each demographic variable separately vis-a-vis its relationship with dependent variable viz.

H1a: Age of employees has causal effect on the way employees perceive IFRS accounting norms will impact Indian banking sector.
H1b: Gender of employees has causal effect on the way employees perceive IFRS accounting norms will impact Indian banking sector.
H1c: Years of work experience of employees has causal effect on the way employees perceive IFRS accounting norms will impact Indian banking sector.
H1d: Designation of employees has causal effect on the way employees perceive IFRS accounting norms will impact Indian banking sector.
H1e: Type of bank/organization has causal effect on the way employees perceive IFRS accounting norms will impact Indian banking sector.

H2: There are underlying factors affecting employees’ perception of impact of implementing IFRS accounting norms on Indian banking sector.

4 DATA ANALYSIS

4.1 Sample characteristics

The sample for the study consisted of officer level employees working in the banking sector of Indian public sector banks. The officer level staff of the banking sector that was aware about the implementation of International Financial Reporting Standard was focus of the sample. However other finance professionals like Chartered Accountants and ICWAs who were also aware and dealing with the IFRS were also considered for inclusion in the sample. A total number of 500 professionals were contacted out of which 301 number were responded, thus giving a total response rate of 60.20 percent.

4.1.1 Demographic Profile

The demographic profile of the subjects in the current study is shown in the table below with relevant statistics. The demographics were recorded based on gender, age, designation, experience and type of bank. The result shows that males were overrepresented (64.90%) as compared to females (35.10%). The age taken was between 21 to 64 years which was further categorized into five categories viz. 21 to 24 years, 25 to 34 years, 35 to 44 years, 45 to 54 years, and 55 years to 64 years. The frequency and percentage of respondent in each of these categories is shown in the Table 2 below.

Table 2. Demographics of survey respondents (N=291)

Socio-demographics		**Frequency (N=291)**	**Percent (%)**
Gender	Male	189	64.90
	Female	102	35.10
Age	21-24 years	12	4.10
	25-34 years	102	35.10
	35-44 years	85	29.20
	45-54 years	63	21.60
	55-64 years	29	10
Designation	Officer	37	12.70
	Manager	81	27.80
	Senior Manager	82	28.20
	Chief Manager	66	22.70
	AGM	17	5.80
	DGM	6	2.10
	CMD	2	0.70
Experience	0 to 5 years	97	33.33
	6 to 10 years	58	19.90
	11 to 15 years	24	8.20
	16 to 20 years	30	10.30
	21 to 25 years	31	10.70
	26 to 30 years	27	9.30
	Over 30 years	24	8.20
Type of Bank	Allahabad Bank	3	1.00
	Andhra Bank	15	5.20
	Bank of Baroda	11	3.80
	Bank of India	11	3.80
	Bank Of Maharashtra	15	5.20
	Canara Bank	14	4.80
	CBI	11	3.80
	Corporation Bank	15	5.20
	Dena Bank	27	9.30
	IDBI	11	3.80
	Indian Bank	10	3.40
	Indian Overseas Bank	15	5.20
	Oriental Bank Of Commerce	19	6.50
	Punjab National Bank	30	10.30
	Punjab & Sind Bank	20	6.90
	State Bank of India	23	7.90
	Syndicate Bank	10	3.40
	UCO Bank	7	2.40
	United Bank Of India	14	4.80

The experience range of subjects varied from fresher to 30 years which was subdivided into experience ranges of five years i.e., 0 to 5 years, 6 to 10 years, 11 to 15 years, 16 to 20 years, 21 to 25 years, and 26 to 30 years. Freshers were slightly overrepresented in the sample (33.33%) followed by the 5 to 10 years of experience group (19.90%). The rest of the experience group contained the 8% to 10% subjects in each experience category. Designation was another demographic variable. Designation of subjects range from Officer, Manager, Senior Manager, Chief Manager, AGM, DGM and CMD. The frequency percentage of subjects in each designation categories shown in the Table 2. AGM, DGM and CMD seem to be underrepresented in the sample as compared to other managerial level staff. The reason for this was the inaccessibility of higher level staff for responding to the questionnaires.

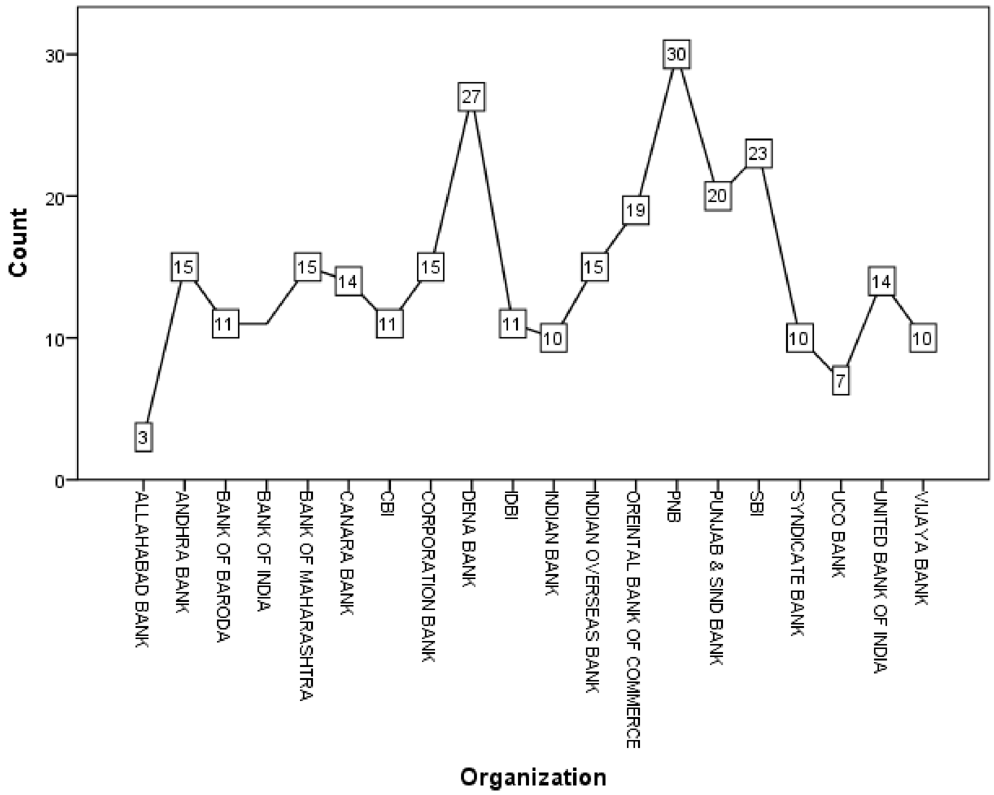

Fig. 2. A line graph showing count of different organization type studied in the survey

The data was collected from 20 Nationalized banks working in India whose frequency, percentage and graphical representation of the counts are shown in the table 2 and figure 2. Punjab national bank (30), followed by Dena bank (27), State bank of India (23) and Punjab and Sindh bank (20) respondents are slightly overrepresented as compared to other banks. The details statistics can be seen from the Table 2.

4.2 Data Normality

The variables in the dataset which have been measured on the interval scale like age and the dependent variable that was created to major the perceived impact of implementation of IFRS were tested for the normality. Normality was tested by applying both test and distribution method. As direct tests for normality Kolmogorov-Smirnov test and Shapiro-Wilk test have been used while for checking the distribution, skewness and kurtosis of the relevant variables have been checked. The null hypothesis for Shapiro-Wilk test and Kolmogorov-Smirnov test is that the current distribution follows a normal distribution curve. The values for both the test in current scenario was found to be significant ($p<.001$) indicating us to reject null hypothesis and accept the alternate hypothesis. So based on Kolmogorov-Smirnov test and Shapiro-Wilk test we can say that the three variables that is age, experience and perceived impact of implementing IFRS are non-normal in nature.

Table 3. Test for normality for the variables in research

Variable name	Kolmogorov-Smirnov-test value	Shapiro-Wilk test value	P value	Skewness/SE	Kurtosis/SE
Age	0.09	0.95	<.001	1.77	-3.87
Experience	0.17	0.89	<.001	3.35	4.25
Perceived impact of implementing IFRS	0.15	0.93	<.001	6.99	4.29

4.3 Validity and Reliability of Measurement Scale

The questionnaire consisted of 32 items out of which 29 items were considered for item analysis while three items that is item number 6 (What do you think is the current status of IFRS in Banking industry?), item number 29 (What do you think would be the impediments to the convergence of IFRS?) and item number 31 (Are IFRS financial statements comparable?) were not considered for item analysis. This is because these questions consisted of selecting multiple options and were not measured on the interval scale, which was not case for other type of items in the questionnaire.

Table 4. Item Total Correlation of scale items

Items	Corrected Item-Total Correlation
Q1. Are you aware of IFRS adoption procedure in India?	.358
Q2. What do you think can be utility of IFRS in India?	.643
Q3. What do you think about the problems in implementing the IFRS in Indian scenario?	-.241
Q4. What could be the problems in implementing the IFRS in Indian scenario?	.199
Q5. What could be the ways to address these problems which might come in the process of implementing the IFRS in Indian scenario?	.151
Q7. What do you think could be the training needs of the staff who overseas/monitor the process of implementing the IFRS/Ind AS?	.345
Q8. What do you think could be impact of IFRS/Ind AS on the financial information provided to shareholders?	.581
Q9. What do you think could be impact of IFRS/Ind AS on the financial information provided to regulators?	.310
Q10. What do you think could be the impact on the comparability aspect of financial statements after implementing IFRS/Ind AS?	.406
Q11. What do you think could be the impact on the ability to secure cross-border listing of securities by the Indian companies/Banks?	.353
Q12. What do you think would be the impact on the global operations of the company/Banks after implementing IFRS/Ind AS?	.495
Q13. What do you think would be the impact on the cost of capital of the company/Banks after implementing IFRS/Ind AS?	.141
Q14. What do you think would be the impact on the transparency of the results of the company/Banks after implementing IFRS/Ind AS?	.585
Q15. What do you think would be the impact on the accessibility of the Global Capital Market by the company/Banks after implementing IFRS/Ind AS?	.512
Q16. What do you think about the requirements of introducing amendments to the existing laws like Companies Act, RBI Act, SEBI Act, IRDA Act, etc.?	.353
Q17. What do you think the implementation of IFRS/Ind AS have impact on economic growth of the country?	.391
Q18. What do you think will the opportunities for the accounting professionals in implementing the IFRS/Ind AS?	.297
Q19. How 'Loan Impairment' will affect the bank's financial performances after implementation of IFRS/Ind AS?	.477
Q20. If we compare the "Fair value accounting" as described in IFRS/Ind AS and the "Historical Accounting" as described in Indian GAAP, what do you think will be the best method in Indian scenario?	.384
Q21. What do you think will be the impact of implementing IFRS/Ind AS on the corporate governance aspect of the banks?	.407
Q22. What do you think will be the impact of IFRS/Ind AS on the Net Interest Margin (NIM) of the banks	.158
Q23. Does Accounting Standard matter for the banks?	.573
Q24. What do you think will be the impact of implementing IFRS/Ind AS on the market capitalization of the banks?	.415
Q25. What do you think will be the impact of implementing IFRS/Ind AS on the reporting discretion of the accounting professionals?	.230
Q26. What do you think whether IFRS should be 'Converged' or 'Harmonized'?	.333
Q27. Is change in Accounting Standards sufficient to achieve shift in Accounting Outcomes?	.443
Q28. What do you think will be the impact on the flow of foreign direct investment (FDI) of implementing IFRS/Ind AS?	.491
Q30. What do you think will be the impact of implementing IFRS/Ind AS on the level of earning management?	-.158
Q32. Will human resource cost increase after implementing IFRS/Ind AS?	.131

The Cronbach Alpha reliability for the 29 item scale was found to be 0.79 which can be considered a good measure of internal consistency of the scale. Corrected item total correlations of this scale (which are a major of item discrimination value of items) are shown in the table above. According to (Field, 2010) if item total correlations are 0.4 or above then that item can be considered a significant item and can be retained for the further analysis. Based on this criteria around 11 items got eliminated which had their item total correlation values less than .4 (including the approximate values to decimals) leaving 18 items. The Cronbach alpha reliability value of scale was recalculated with these 18 items and found to be 0.85.

4.4 Factor Analysis

One major aim of current research was to find out the major factors underlying the perceived challenges behind implementation of IFRS system in India. To find out the unobserved factors underlying the data, exploratory factor analysis using principle component method was carried out whose results are discussed below. As a precursor, the check for data sufficiency and suitability of data for factor analysis was done by observing the

KMO test (Kaiser-Meyer-Olkin Measure of Sampling Adequacy) values and Bartlett's test of sphericity. KMO test is a test of data sufficiency whose recommended values are 0.7 or above (Field, 2010) while Bartlett's test of sphericity basically test the assumption whether our factor matrix is significantly different from identity matrix or not. For a meaningful factor analysis KMO tests value should be above 0.7 and Bartlett's test should be significant.

However, before going for factor analysis some more items were deleted because they were not matching to the objective of factor analysis, i.e. they were not assessing the impact of implementation of IFRS in India. They are item number 1(Are you aware of IFRS adoption procedure in India?) which measures awareness not impact, 2 (What do you think can be utility of IFRS in India?) which talks about the utility of the IFRS but not its impact, 11 (What do you think could be the impact on the ability to secure cross-border listing of securities by the Indian companies/Banks?), 16 (What do you think about the requirements of introducing amendments to the existing laws like Companies Act, RBI Act, SEBI Act, IRDA Act, etc.?), 20 (If we compare the "Fair value accounting" as described in IFRS/Ind AS and the "Historical Accounting" as described in Indian GAAP, what do you think will be the best method in Indian scenario?), 23 (Does Accounting Standard matter for the banks?), 27 (Is change in Accounting Standards sufficient to achieve shift in Accounting Outcomes?). After deleting these items once again Cronbach alpha value for remaining 13 items were calculated which came out to be .82 suggesting good reliability for the scale. Further all the item total correlations were above 0.4 recommended criteria in the final 13 item scale. An exploratory factor analysis was carried out on the 13-point scale whose results are presented below:

Table 5. Exploratory Factor Analysis of items (N = 291)

Dimensions and Items	Communalities	Factor Loadings	Eigen Value	Variance Explained
Factor1:Performance Implications			4.39	33.74
Q19. 'Loan Impairment' will affect the bank's financial performances after implementation of IFRS/Ind AS.	.67	.787		
Q14. Transparency of the results of the company/Banks after implementing IFRS/Ind AS will be impacted.	.72	.767		
Q12. Global operations of the company/Banks after implementing IFRS/Ind AS will be impacted.	.53	.606		
Q15. The accessibility of the Global Capital Market by the company/Banks after implementing IFRS/Ind AS will be impacted.	.57	.569		
Q21. Implementation IFRS/Ind AS will affect the corporate governance aspect of the banks.	.54	.557		
Factor 2: Financial information implications			1.48	11.37
Q9. Implementation of IFRS/Ind AS will affect the financial information provided to regulators.	.73	.838		
Q8. Implementation of IFRS/Ind AS will affect the financial information provided to shareholders.	.64	.715		
Q10. The comparability aspect of financial statements after implementing IFRS/Ind AS will be affected.	.63	.624		
Factor 3: Economic Growth implications			1.22	9.38
Q17. The implementation of IFRS/Ind AS has impact on economic growth of the country.	.66	.793		
Q24. Implementing IFRS/Ind AS will affect the market capitalization of the banks.	.58	.714		
Factor 4: Human Resource implications			1.08	8.34
Q7. The training needs of the staff who overseas/monitor the process of implementing the IFRS/Ind AS will change.	.68	.782		
Q18. The opportunities for the accounting professionals after implementing the IFRS/Ind AS will be affected.	.55	.727		
Q28. The flow of foreign direct investment (FDI) after implementing IFRS/Ind AS will be affected.	.66	.510		
KMO = .80, Bartlett's test: Chi Square $\chi^2(78)$= 1151.857, p = .000				

A principal component analysis revealed for major factors underlying the perceived impact of implementation of IFRS in India. The varimax rotation was used and items below factor loading .5 were suppressed. According to Field, (2010)variables having factor loading above .3 can be taken, however to avoid multiple loading the items having factor loading below .5 were suppressed but this did not lead to any loss of item or their contribution to the total variance explained. Also items having communalities less than .5 can be eliminated (Field, 2010) but in our case all the items reported communalities over .5. All of these factors had eigenvalue over one; the scree plot of the factors is also shown below.

The first factor was named as 'performance implications' because the items contained in it were related to various types of performance-based implications for the banks after the implementation of IFRS system in India. The performance implication factor had eigenvalue of 4.39 and it contributed to 33.74% in the total variance. It contained items like Loan Impairment will affect the bank's financial performances after implementation of IFRS/Ind AS (.67, .79), transparency of the results of the company/Banks after implementing IFRS/Ind AS will be impacted (.72, .77), global operations of the company/Banks after implementing IFRS/Ind AS will be impacted (.53, .61), the accessibility of the Global Capital Market by the company/Banks after implementing IFRS/Ind AS will be impacted (.57, .57), implementation IFRS/Ind AS will affect the corporate governance aspect of the banks (.54, .56).

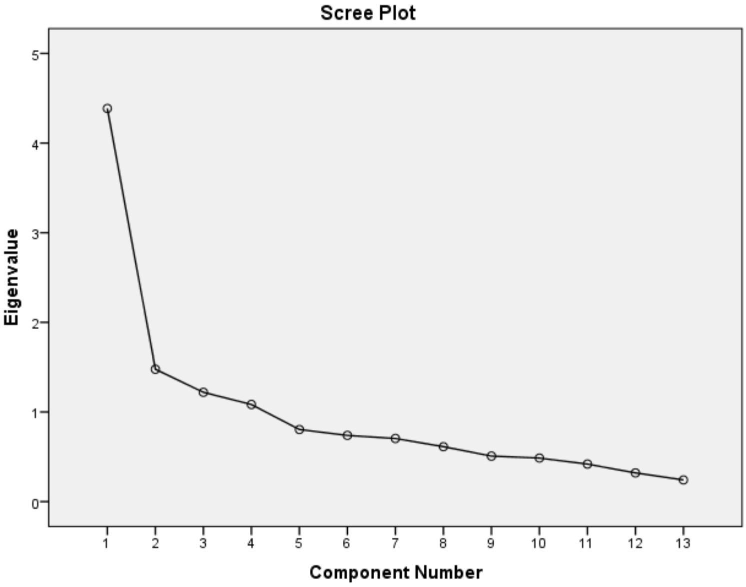

Fig. 3. Screen plot showing the possible factor outcomes

The second factor concerned with the dissemination of financial information related to implementation of IFRS hence it was named as financial information implications. It contained items like implementation of IFRS/Ind AS will affect the financial information provided to the regulators (.73, .84), implementation of IFRS/Ind AS will affect the financial information provided to shareholders (.64, .72), the comparability aspect of financial statements after implementing IFRS/Ind AS will be affected (.63, .62). This factor had the eigenvalue of 1.48 and explained 11.37% of total variance. The third factor was called economic growth implications because of two items contained in it indicated toward the impact of implementation of IFRS on economic growth and market capitalization of banks (which essentially is another measure of bank's economic growth). It contained 2 items, i.e., the implementation of IFRS/Ind AS have impact on economic growth of the country (.66, .79); implementing IFRS/Ind AS will affect the market capitalization of the banks (.58, .71). This factor had the eigenvalue of 1.22 and explained 9.38% of variance. The third factor essentially indicated toward the human resource implications for the implementation of IFRS hence it was named as the human resource implications. This had an eigenvalue of 1.08 and explained it 8.34% of total variance. It contained 3 items like The training needs of the staff who overseas/monitor the process of implementing the IFRS/Ind AS will change (.68, .78), the opportunities for the accounting professionals after implementing the IFRS/Ind AS will be affected (.55, .73), and the flow of foreign direct investment (FDI) after implementing IFRS/Ind AS will be affected (.66, .51).

4.5 Regression analysis

A linear regression analysis was used to see the role of the demographic indicators recorded in the research over the perceived impact of implementation of IFRS in India. A new variable was created by adding the 13 items whose factor structure was established after factor analysis and named as 'perceived impact of implementing IFRS'. The demographic independent variables that were considered for the regression analysis were age, gender, experience, type of bank and designation of the respondent. An analysis for diagnosing multicollinearity was also done to see if two or more independent variables are highly correlated with each other and if one can be predicted from the other. The VIF (variance inflation factor) value for all the variables was below 10 while the tolerance value for all the variables was not less than .1, so we can say there is no serious multicollinearity issue with the data.

Table 6. Linear model of demographic predictors of perceived impact of implementation of IFRS

		Model statistics				Multicollinearity	
		b	SE B	β	p	Tolerance	VIF
1	(Constant)	13.036	2.558		.000		
	Age	.152	.081	.330	.060	.108	9.262
	Gender	1.239	.653	.123	.059	.790	1.265
	Organization	-.032	.054	-.034	.559	.990	1.011
	Designation	.221	.288	.060	.443	.553	1.809
	Experience	-.056	.079	-.123	.480	.110	9.085

Note. R^2= .06

According to researchers if the largest VIF is greater than 10 then there is a cause of concern (Bowerman & O'Connel, 1990; Myer, 1990) while tolerance value below 0.1 indicates cause of concern and when it is below .02 it indicates potential problem (Menard, 1995). Looking at the results we can say that age and experience variables may be cause of concern for multicollinearity issue however the values of tolerance and VIF are within the prescribed cut-off limits for these two.

The regression analysis shows that none of demographic variables are influencing the respondent's perception about the impact of implementation of IFRS so we can say perceived impact is based on not the demographic variables. It might be the result of practical and experiential understanding of the respondents and not who he or she is.

Table 7. Testing for role of Gender on impact of IFRS

Gender	N	Mean	Std. Deviation	Std. Error Mean
Male	189	20.1640	4.94540	.35973
Female	102	20.2255	4.60716	.45618

Table 8. Independent Samples Test

	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference Lower	Upper
Equal variances assumed	.812	**.368**	-.104	289	**.918**	-.06147	.59341	-1.22942	1.10648
Equal variances not assumed			-.106	219.970	**.916**	-.06147	.58095	-1.20640	1.08346

Table 9. Co-relation between age and impact of IFRS

Correlations			
		Age	impact_13
Age	Pearson Correlation	1	.202**
	Sig. (2-tailed)		.001
	N	291	291
impact_13	Pearson Correlation	.202**	1
	Sig. (2-tailed)	.001	
	N	291	291

**. Correlation is significant at the 0.01 level (2-tailed).

Table 10. Role of designation on IFRS

Descriptives								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean Lower Bound	Upper Bound	Min.	Max.
Officer	37	18.6216	3.91118	.64299	17.3176	19.9257	14.00	30.00
Manager	81	20.6173	4.95118	.55013	19.5225	21.7121	13.00	36.00
Senior Manager	82	19.5244	4.57914	.50568	18.5182	20.5305	13.00	36.00
Chief Manager	66	20.5909	4.94890	.60917	19.3743	21.8075	13.00	36.00
AGM	17	22.8235	4.55844	1.10559	20.4798	25.1673	17.00	30.00
DGM	6	17.5000	3.44964	1.40831	13.8798	21.1202	13.00	22.00
CMD	2	31.0000	.00000	.00000	31.0000	31.0000	31.00	31.00
Total	291	20.1856	4.82164	.28265	19.6293	20.7419	13.00	36.00

Table 11. ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	547.765	6	91.294	4.186	.000
Within Groups	6194.215	284	21.811		
Total	6741.979	290			

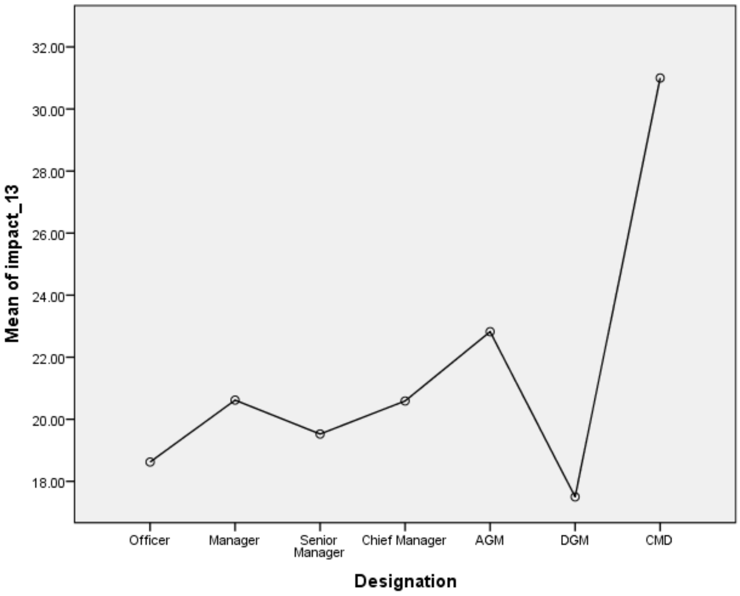

Fig. 4. Mean of Designation

Table 12. Role of Organization type on IFRS

Descriptive								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Min.	Max.
					Lower Bound	Upper Bound		
ALLAHABAD BANK	3	20.0000	2.64575	1.52753	13.4276	26.5724	18.00	23.00
ANDHRA BANK	15	18.9333	4.52717	1.16891	16.4263	21.4404	13.00	26.00
BANK OF BARODA	11	19.4545	4.10764	1.23850	16.6950	22.2141	14.00	28.00
BANK OF INDIA	11	18.9091	3.30014	.99503	16.6920	21.1262	15.00	26.00
BANK OF MAHARASHTRA	15	19.4000	3.50102	.90396	17.4612	21.3388	14.00	25.00
CANARA BANK	14	22.5000	6.28490	1.67971	18.8712	26.1288	14.00	36.00
CBI	11	24.0909	5.99090	1.80632	20.0662	28.1157	18.00	36.00
CORPORATION BANK	15	19.5333	5.01237	1.29419	16.7576	22.3091	13.00	31.00
DENA BANK	27	20.7037	5.12771	.98683	18.6752	22.7322	14.00	36.00
IDBI	11	19.8182	3.81623	1.15064	17.2544	22.3820	13.00	26.00
INDIAN BANK	10	23.8000	5.92171	1.87261	19.5639	28.0361	18.00	36.00
INDIAN OVERSEAS BANK	15	18.2000	4.27952	1.10497	15.8301	20.5699	13.00	26.00
OREINTAL BANK OF COMMERCE	19	20.7368	5.76235	1.32197	17.9595	23.5142	14.00	36.00
PNB	30	21.4667	5.48184	1.00084	19.4197	23.5136	13.00	36.00
PUNJAB & SIND BANK	20	19.0500	3.94001	.88101	17.2060	20.8940	13.00	26.00
SBI	23	19.9130	4.11111	.85722	18.1353	21.6908	13.00	31.00
SYNDICATE BANK	10	19.5000	4.47834	1.41618	16.2964	22.7036	13.00	25.00
UCO BANK	7	19.1429	2.60951	.98630	16.7295	21.5562	16.00	24.00
UNITED BANK OF INDIA	14	19.0000	4.69042	1.25357	16.2918	21.7082	13.00	26.00
VIJAYA BANK	10	18.4000	2.83627	.89691	16.3711	20.4289	14.00	24.00
TOTAL	291	20.1856	4.82164	.28265	19.6293	20.7419	13.00	36.00

Table 13. ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	650.717	19	34.248	1.524	.077
Within Groups	6091.262	271	22.477		
Total	6741.979	290			

5. DISCUSSION & LIMITATIONS

5.1 Discussion

This study examines implementing IFRS/Ind AS by PSBs in India. A large percent of our respondents indicated that IFRS-based financial statements will be used not only for external reporting but also for internal decision-making and performance measurement processes in the parent and subsidiaries. This approach to adopting IFRS/Ind AS may prompt an integration of financial accounting and management accounting practice in PSBs in India or even lead to an external reporting/financial accounting domination of internal reporting/management

Accounting. The impact of implementing IFRS on the financial statements is significant. For most companies/Banks in our sample, IFRS-based stockholders' equity is expected to be higher than equity based on national accounting standards. Most respondents believe that the change in accounting and reporting under IFRS, including the robust disclosure requirements, should improve comparability among PSBs and improve financial transparency. The stated benefits of the change, such as a lower cost of capital or improved quality and timeliness of management information, are questioned by many. Several important decisions within PSBs, including profit distribution policy and tax strategies, will still be based on individual accounts prepared in accordance with national accounting standards. There is a general consensus that transition to IFRS/Ind AS is costly, complex and burdensome process. The lack of implementation guidance and differences in interpretation of IFRS are other obstacles to accounting convergence. The consensus view of respondents is that a lack of adequate education, training and knowledge of IFRS are important challenges of conversion. A training program for staff across a company is needed to let them adopt an entirely different system of business operations, performance measurement and communication with the markets. This training will be an ongoing exercise since IFRS is a moving target. Audit firms play the crucial role in this training program. The involvement of auditors is so significant that they run the risk of becoming heavily involved in preparing the financial statements they are required to audit. This is mainly caused by the complexities of IFRS where many entities, especially smaller listed entities, lack sufficient expertise.

5.2 Limitations

The scope of our study is limited to Public Sector Banks in India whereas the Banking sectors includes the other scheduled commercial banks like private sector banks, Regional Rural Banks and Urban Cooperative Banks.

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