

Banks may face the heat as they brace for change

KR Srivats

New Delhi, January 19:

Indian banks — which are already stressed on the bad loans front — may face more headwinds in the next few years with the Centre directing them to adopt internationally recognised accounting rules from April 1, 2018 (with the comparative being 2017-18).

The Centre's move to announce a roadmap for the adoption of Indian Accounting Standards (Ind AS) by banks with effect from April 1, 2018, could prove to be a "double whammy" for banks, especially public sector ones, say banking industry observers and accountancy experts.

Not only will banks be required to do some heavy lifting for meeting their capital needs according to Basel-III norms, but they will also have to brace for change in the way non-performing loans are accounted for in their account books, they added.

From the current 'incurred loss' model, banks will have to apply an 'expected credit loss' (ECL) model.

One key fallout of such a move would be a substantial increase in the provisioning that banks would have to make when they adopt the ECL model, Dolphy D' Souza, Partner in the Indian member firm of EY Global and IFRS Leader India, told *BusinessLine*. He said the ECL model was an outcome of the severe criticism of the previous 'incurred loss' model that recognised the impairment when a loss took place. The model, in fact, resulted in recognising the impairment loss too late — when the damage was already done. As a result, this model was blamed for the credit crisis at the end of the last decade.

Sumit Seth, Partner, PricewaterhouseCoopers & Co, said the latest roadmap was a welcome development and provided much-needed clarity and direction for entities in the financial services and insurance sectors.

"One of the most significant implications of Ind AS adoption by banks and NBFCs could be increased loan loss provisioning and consequential impact on capital, if the new impairment rules of Ind AS 109-Financial Instruments are adopted in its entirety. These rules require recognition of expected credit losses based on forward looking information and not just incurred losses. Reliable data and credit models will also be needed to properly apply these provisions," Seth said.

For instance, if banks face a Kingfisher Airlines-like loss situation under the new ECL model, they will be able to recognise and account for the loss earlier, rather than wait till the loss is incurred.

(This article was published in the Business Line print edition dated January 20, 2016)

MORE FROM BUSINESS LINE

[Dell EMC looks to hire 5,000 engineers in India in one year](#)

[ONGC to turn ex-bonus on Dec 15](#)

[ONGC board approves 1:2 bonus, ₹4.50/share interim](#)