News release

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India Inc. yet to begin implementing organisational changes to prepare for smooth Ind AS adoption: PwC Ind AS Outlook Survey

- 45% respondents believe management approach for identification of segments will have a significant impact on disclosures made by companies
- 75% of the respondents expect reporting of additional non-GAAP financial measures on the transition to Ind AS

Mumbai: The level of preparedness for Ind AS adoption for companies goes beyond financial reporting, requiring significant organisational changes. The PwC Ind AS Outlook Survey found that more than **50% of the respondents are yet to plan or commence implementing changes at an organisational level. Also, 39% of the respondents are yet to start or plan for the impact assessment of Ind AS adoption**.

Though the level of impact of adopting Ind AS will vary by company and across sectors, better planning will enable companies to address some of the implementation challenges ahead of time, the survey pointed out.

India Inc. also believes that the adoption of Ind AS will have a significant impact on management approach for identification of segments and taxation. As per the survey, the sectors which will be impacted the most are financial services, retail and consumer, pharmaceuticals and life sciences as well as technology.

According to the survey, 45% of the respondents believe **management approach** for identification of segments will have a significant impact on the disclosures made by companies. The top three impacted sectors being financial services, retail and consumer as well as pharmaceuticals and life sciences. Under Indian GAAP, segmental information is disclosed based on business and geographical reporting.

However, with Ind AS, segmental information is to be disclosed on the same basis as how the chief operating decision-maker evaluates financial information for the purposes of allocating resources and assessing performance. **This is important as investors may now see a change in the way segment information is reported using the "management approach"- it will now be through the "lens of management."**

Taxation is another area which is expected to have a major impact on Ind AS adoption, with financial services, retail and consumer and technology being the top three impacted sectors. Income tax is another important area where we expect significant impact. For example, increased use of fair value accounting can potentially increase Minimum Alternate Tax (MAT) liabilities. This is because under Ind AS, unrealised gains on various types of financial instruments such as investments and derivatives will get recognised in the income statement (subject to certain conditions), which until now were not recognised under Indian GAAP.

Under Indian GAAP, deferred tax assets on carry forward losses were not recognised due to a very high recognition threshold of "virtual certainty". Under Ind AS, this threshold is lower, so we could see reporting of higher deferred tax assets on transition, resulting in a positive impact on net income and net worth.

Ind AS is also likely to have a **significant impact on reported revenue** of companies across sectors. The reasons for such change include the emphasis on multiple element accounting which could result in deferral of some revenue (for example, the sale of goods together with extended warranties). Also incentives/consideration paid to customers will get deducted from revenue under Ind AS instead of recording the same as expense under current Indian GAAP. Certain items such as excise duty may get included as part of gross revenue and accounting for service concession arrangements involving public private partnerships in the infrastructure space will be very different.

It is also expected that adoption of Ind AS may lead to reporting of additional non-GAAP (adjusted performance) measures – 75% of the survey respondents thought so. Principles-based consolidation guidance under Ind AS could cause consolidation of additional entities especially special purpose vehicles or structured entities, including due to de facto control. We also expect significant impact on account of leases, resulting in reporting of higher amount of lease assets and liabilities especially in those arrangements which may not have been legally termed as leases but in substance are 'right to use underlying assets' or as we call them "embedded leases". As per the survey, retail and consumer, chemicals, and automotive sectors are going to be most impacted.

Ends

About the PwC Ind AS Outlook Survey:
During approximately three weeks starting 4 January 2016, PwC's Ind AS Outlook Survey gathered responses from more than 100 respondents across a variety of industry sectors and size of companies. A majority (63%) of the respondents were covered under mandatory Phase I adoption of Ind AS, of which 61% were listed companies. Further, 18% of the respondents were covered under mandatory Phase II adoption of Ind AS, of which 83% were unlisted companies.

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