

Bringing International Accounting Standards to Emerging Markets: Implementing IndAS in Indian Banks

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Abstract

With an initial commitment by India during G20 Summit in Pittsburgh in 2009 to converge national accounting standards with IFRS, the timeline for adoption of IndAS by Indian banks has shifted from April 2018, past the year 2025, underscoring a need to probe the implications and challenges. It is expected to be an inflection point in the financial reporting regime for Indian banks, as they primarily depend on treasury gains than operating incomes and interest margins. Shifting away from the incurred-loss model under Indian Generally Accepted Accounting Principles (IGAAP), the application of IndAS requires proactive strategic measure to build resilience. This transition involves sophisticated tax ramifications and necessitates the banks to carry out technological overhauls to be compliant. Though the Reserve Bank of India (RBI) has indicated the importance of this change and issued a phased rollout plan, the journey towards an extensive rollout continues to be punctuated with operational, financial, and regulatory hurdles. We discuss the rationale of the transition of Indian banks from IGAAP to IndAS, examining the implementation challenges, implications and anticipated benefits of this accounting reform in enhancing financial reporting quality, comparability, and integration of India as an emerging economy with global financial markets.

Key Words: IndAS 32, IndAS 107, IndAS 109, International Accounting Standards, Expected Credit Loss, Banking

Introduction

Early estimates of the first quarter of financial year 2025-26 expected a 2 per cent growth in margins of Indian banks, however actual figures revealed a contraction of one percent in the net interest income (NII) (ETBFSI, 2025). This perhaps is an epilogue to almost a decade of growth of Indian private and public sectors banks' profit margins being propelled by treasury gains with nominal contribution from NII, reflecting the need for stronger liability profile and better operational efficiency. Amidst geo-political risks, building resilience of banks' balance-sheets to borrowing costs has necessitated emerging markets like India to focus on stable deposits and healthy liquidity. This requires a forward looking approach, complimented by robust accounting standards, which enable better provisioning and more transparent disclosures. We are precisely 10 years past the announcement of such a revamp of accounting standards for Indian banks, wherein the Reserve Bank of India (RBI) had set up a working group in July 2010 to address the Indian banking system's transition into the Indian Accounting Standards (IndAS) based on International Financial Reporting Standards (IFRS) (RBI, 2015). With an initial commitment by India during G20 Summit in Pittsburgh in 2009 to converge national accounting standards with IFRS, the timeline for adoption of IndAS by Indian banks shifted from April 2018, past the year 2025, with a need to probe the implications and challenges.

Transitions from National to International Accounting Standards: Evidence from the past

Previously known as International Accounting Standards (IAS), the International Accounting Standards Board took over and rechristened it as the International Financial Reporting Standards (IFRS) in the year 2001, with a primary objective *“to develop high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards”* (IFRS, 2025). For listed companies, over 140 jurisdictions have adopted and/or permit the use of IFRS accounting standards, while the IFRS foundations tracks the adoption across 169 countries across the globe (IFRS, 2025). However, the empirical evidence of its adoption across developed and emerging markets have divergent perspectives.

For instance, when German firms shifted from stakeholder model based Generally Accepted Accounting Principles (GAAP) to IAS, value-relevance was higher for profit making firms, with no significant influence on reporting of quality of earnings for loss making firms (Bartov et al., 2005). With full-scale adoption of IFRS, in place of Russian Accounting Standards (RAS), research cites to significant impact on Russian firms. While developed nations, especially European countries showed improved transparency and higher quality of disclosures with IFRS adoption, limited literature in the context of emerging markets present mixed evidence, ranging from negative market reactions and poor investor sentiments in on hand to improved working capital financing and higher capital investments (Garanina & Kormiltseva, 2014; Müller, 2014; Dos Santos, et al., 2016; Soni, et al., 2025)

The gap in empirical evidence, however, widens in case of the adoption of IFRS in banking and financial services industry across emerging markets. For developed nations, it led to higher quality of disclosure, wherein European banks shifted their focus from market risk to credit risk (Bischof, 2009). For Brazil, Russia, India, China and South Africa (BRICS), banks adopting IFRS showed significant positive impact of IFRS on enhancing earning quality. Adoption of IFRS further proved to be a proponent of trade openness (Biswas et al, 2024). Though, under the specific standard IFRS 9, dealing with financial instruments, its classification and measures, a detailed probe to investigate the impact of the international accounting standard on the liquidity of the bank and associated risks (Nadia & Rosa, 2014).

Converging Accounting Standards for Banks

The Indian Banking Association (IBA) and the Institute of Chartered Accountant of India (ICAI), with various regulatory and supervisory departments of RBI worked towards the transition of accounting for Indian banks to IFRS, guided by the Indian Accounting Standards (IndAS) as published by the Ministry of Corporate Affairs, Government of India. With classification of financial assets, under IndAS 109, set to be major challenge, an alignment with IFRS 9, requires financial assets to be classified as amortized cost, fair value through profit and loss (FVTPL), or fair value through other comprehensive income (FVOCI). FVOCI will be applicable for an asset subject to a business model test, i.e. the asset is held within “*a business model whose objective is to hold assets in order to collect contractual cash flows*” and “*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*” (RBI, 2015).

The implementation of IndAS, specifically IndAS 109 that requires an expected credit loss (ECL) model, is expected to be an inflection point in the financial reporting regime for Indian banks. Shifting away from the incurred-loss model under Indian Generally Accepted Accounting Principles (IGAAP), the application of IndAS requires proactive strategic measure to build resilience. This transition involves sophisticated tax ramifications and necessitates the banks to carry out technological overhauls to be compliant. The Reserve Bank of India (RBI) has indicated the importance of this change and issued a phased rollout plan, but an extensive rollout continues to be punctuated with operational, financial, and regulatory hurdles (RBI, 2023).

We discuss the rationale of the transition of Indian banks from IGAAP to IndAS, examining the implementation challenges, and anticipated benefits of this accounting reform in enhancing financial reporting quality, comparability, and integration of India as an emerging economy with global financial markets (see *table.1*).

Table.1: Summary of Impact Area and corresponding effect of Implementing IndAS in Indian Banks

Impact Area	Effect
Book Profits	↓ Due to upfront ECL → tax savings and lower MAT
Deferred Tax Assets (DTA)	↑ Due to timing differences → complexity
Capital Adequacy	RBI allows part of ECL provisioning to be added back to Common Equity Tier 1
Government Tax Revenue Loss	↑ Short-term, stabilizes over time
Compliance Costs	↑ Rise taxable income from model-driven ECL swings
Policy Gaps	May require legislative tweak for tax alignment

Tax Ramifications & Compliance

One of the key tax impacts of implementing IndAS in banks is the upfront recognition of credit losses under the ECL approach. In contrast to IGAAP, which only recognizes losses when they happen, IndAS 109 (Chapter 5, Section on Impairment) mandates banks to estimate credit losses based on past, current, and future information (Institute of Chartered Accountants of India, 2015a). This results in provisioning, thus decreasing the book profits of the bank. Since taxable income arises from book profit, tax liabilities experience a direct decrease (KPMG, 2023). Banks will consequently face reduced tax outgo, especially in the first few years of the implementation. This tax advantage is, however, temporary and reverses as credit losses occur. The timing difference between recognition of provisions and the occurrence of actual credit loss events leads to the formation of deferred tax assets (DTAs) and deferred tax liabilities (DTLs). Such deferred items create volatility in the balance sheet since their recognition and reversal are subject to changing macroeconomic variables and risk models. Careful monitoring of these assets is essential as mistakes can put distortion in the bank's financial position and adherence to taxation rules (RBI, 2023). Banks also need adequate profitability over time to achieve DTAs, without which they will be exposed to write-offs negatively affecting the capital adequacy. Minimum alternate tax (MAT) regime provides an additional layer of complexity. As MAT is determined on book profits, and ECL provisioning under IndAS lowers those profits, banks will gain from less MAT liability. This advantage, however, relies upon the definition of allowable deductions under tax laws. Uncertainty in tax laws in relation to IndAS can lead to tax disputes and compliance risks (Economic Times, 2023).

Tax collection for governments may temporarily decrease because of lower tax remittances by banks. This effect is, however, dampened over the long term through reversal of DTAs as well as the subsequent realization of profits as the credit cycle unfolds. From a policy perspective, convergence of the Income Tax Act with IndAS becomes necessary. In the absence of timely legislative changes, banks may be confronted with problems such as disallowance of ECL provisions for tax purposes. Thus, timing of financial reporting

standards and tax laws must be synchronized to preclude compliance gaps. Tax authorities, on their part, have to modify their audit procedures to test the merit of forward-looking provisions and align them with tax legislations.

Changes in Banks' Disclosure

IndAS 107 (Financial Instruments – Disclosure) requires more disclosure about the categorization of financial assets and liabilities, supported by fair value information, income, expenses, gains and losses from financial instruments classified w.r.t IndAS 109 (Institute of Chartered Accountants of India, 2015b). Such disclosures may need to include credit sensitivity analysis by the banks, prescribing how to manage credit risk, liquidity risk and market risk. As per the precedence of IFRS adoption in European Banks, additional documentation will be required, especially regarding provisioning assumptions, SICR (significant increase in credit risk) evaluations, and macroeconomic overlays (Bischof, 2009). This potentially escalates compliance expenses, adds to the audit complexity, and calls for putting in place sophisticated accounting systems.

Implications on Capital Adequacy & Valuation

The effect of IndAS adoption also finds its way into regulatory capital. ECL provisioning would have a significant impact on the bank's retained earnings, a central component of Tier 1 capital. To alleviate this, the RBI has suggested a phase-in option where banks may add back part of the ECL effect to Common Equity Tier 1 (CET1) capital over a defined transition window. This action maintains capital adequacy in the early adoption years but must be accompanied with close synchronization with tax reporting and provisioning standards.

Profit and tax metric volatility is another consequence of IndAS adoption. Since ECL estimates are highly sensitive to macroeconomic indicator fluctuations like GDP growth, inflation, and unemployment, even small movements can have a substantial effect on taxable income. Banks need to develop strong stress-testing frameworks and scenario modeling to be able to foresee tax effects and manage provisioning cycles effectively. For public sector banks (PSBs), collateral valuation is a significant area of adjustment. PSBs frequently advance against collateral in the agricultural and small business sectors. Historically, such collaterals were underwritten at low values in provisioning models. IndAS requires the loss given default (LGD) to account for realizable fair value of collateral. PSBs will thus need to modify models to capture realistic market-based valuations. This consists of revaluation on a regular basis, discounting future recoveries, and haircuts based on regulatory guidelines. More accurate ECL provisioning is the result of the enhanced LGD estimates and can lower overall provisions for well-secured loans. Private sector banks, however, must sharpen their macroeconomic overlays. Private sector banks will, in most cases, employ sophisticated internal models, but

IGAAP did not mandate incorporation of forward-looking indicators. Banks under IndAS must construct models to predict credit losses by considering various macroeconomic scenarios. This involves estimating probability of default (PD) and measuring significant increase in credit risk (SICR) through adverse, baseline, and optimistic scenarios. The aim is to make ECL estimates more sensitive to the economic cycle and enhance transparency in risk management.

Equity versus Liability: Bringing Transparency in Banks' Capital Structure

While concerns over the implementation of ECL and better quality of disclosures are well debated, the implication of IndAS 32 (Financial Instruments: Presentation), needs to be further probed. Under section IndAS 32, banks' financial liabilities are distinguished from equity instruments based on contractual obligations of the financial instruments. It requires hybrid instruments such as preference shares to be split into equity and liability, whereas compound instruments such as convertible bonds need to be separated in liability and equity. With revised assessment of bonds, preference shares and subordinated debts, capital structure of banks will become more transparent, with changes in key ratios pertaining to leverage and asset size. Information asymmetry will potentially reduce with better insights of the capital structure of banks for investors (Institute of Chartered Accountants of India, 2015c).

Fintech enabled Transition

The IT needs for IndAS adoption across various sections by Indian banks are huge. Legacy core banking systems (CBS) have been built for IGAAP-based reporting and are not capable of withstanding the level of granular data required for fair value and ECL calculation. Banks need to implement specialist IndAS engines or middleware solutions with the ability to communicate with CBS in order to produce correct journal entries and tax calculations. This calls for substantial expenditure in IT infrastructure and interdepartmental effort between finance and technology teams (*see table.2*).

Table.2 Addressing challenges in IndAS Implementation & Tax Compliance with Fintech		
Challenges	IT Solution	Fintech Contribution
Legacy CBS	Middleware or IndAS engines	SaaS-based ECL & tax compliance platforms
Fragmented data	Unified data lakes	AI-driven data integration tools
ECL modeling complexity	Scenario-based simulation engines	Model-as-a-Service with audit trail
Manual DTA/DTL tracking	Automated tax computation engines	Rule-based APIs and smart schedulers
Compliance scalability	Robotic Process Automation + cloud-based automation	Cloud-native RegTech solutions

Data fragmentation is yet another obstacle. Customer, loan, collateral, and recovery information is, in most cases, held within different systems, resulting in inconsistencies that make real-time provisioning and taxation impossible. Having a single data warehouse or central data lake can bring this information together to facilitate good tax reporting. Banks also need to install audit-trail-enabled systems to facilitate transparency and accountability. Mechanical tax provisioning procedures are not sustainable under IndAS. With the size of transactions being high and the tax calculations being complex, the banks require automated engines with the ability to produce IndAS-compliant tax postings, such as DTAs and DTLs. Such engines must be capable of rule-based processing, must be compliant with legislative updates, and should deliver audit-ready reports. Robotic process automation (RPA) and application programming interfaces (APIs) should further be able to extend real-time reconciliation between financial and tax books. Scenario-based tax simulations are now a requirement. Banks need to be capable of simulating the tax effect of differing macroeconomic conditions and provisioning policies. This means conducting stress tests on different PD, LGD, and EAD parameters to predict future tax liabilities and design capital allocation accordingly. Scenario-based tax simulations play a critical role in strategic decision-making and regulatory compliance.

Fintech companies are potentially poised as an enabler of the transition of the Indian banking to IndAS with ECL models, better tax compliance logic, cloud based regulatory tech (RegTech) and machine learning driven data harmonization. The adoption of IndAS in Indian banks has far-reaching implications. The shift from IGAAP to IndAS presents provisioning, transparency in banks' capital structure, assessing credit risks, deferred tax, better quality of disclosures and compliance. It requires end-to-end IT system transformations and model adjustments with a strategic perspective fit for public and private sector banks. Fintech present creative solutions that make this shift possible by automated means, cloud technology, and analytics through AI. With banks making this intricate shift, collaborative work among regulators, tax authorities, financial institutions, and tech providers will be essential in ensuring a stable and transparent financial reporting system.

Conclusion

Adopting IndAS for Indian banks to integrate financial systems with global accounting standards is set to have structural impact, much of which will be potentially visible on the reported income and profitability of the banks. While interest income, including NII, as a measure may contract in the short-run, IFR-based accounting will lead to heightened focus on core strength of banks in the long-run. Revisiting the classification, presentation and disclosure of financial instruments of the banks will enable them to grow beyond treasury gains and harness operational stability, deposit stability and early recognition of credit losses. IndAS, though delayed is set to foster transparency in the capital structure of Indian banks, with fuller disclosure of risks.

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