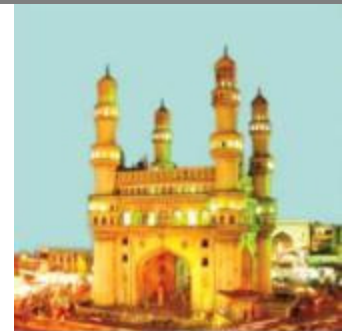




**THE INSTITUTE OF
Company Secretaries of India**
IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament



37th National Convention of Company Secretaries



Theme: Lead Corporate India - Role of Company Secretary

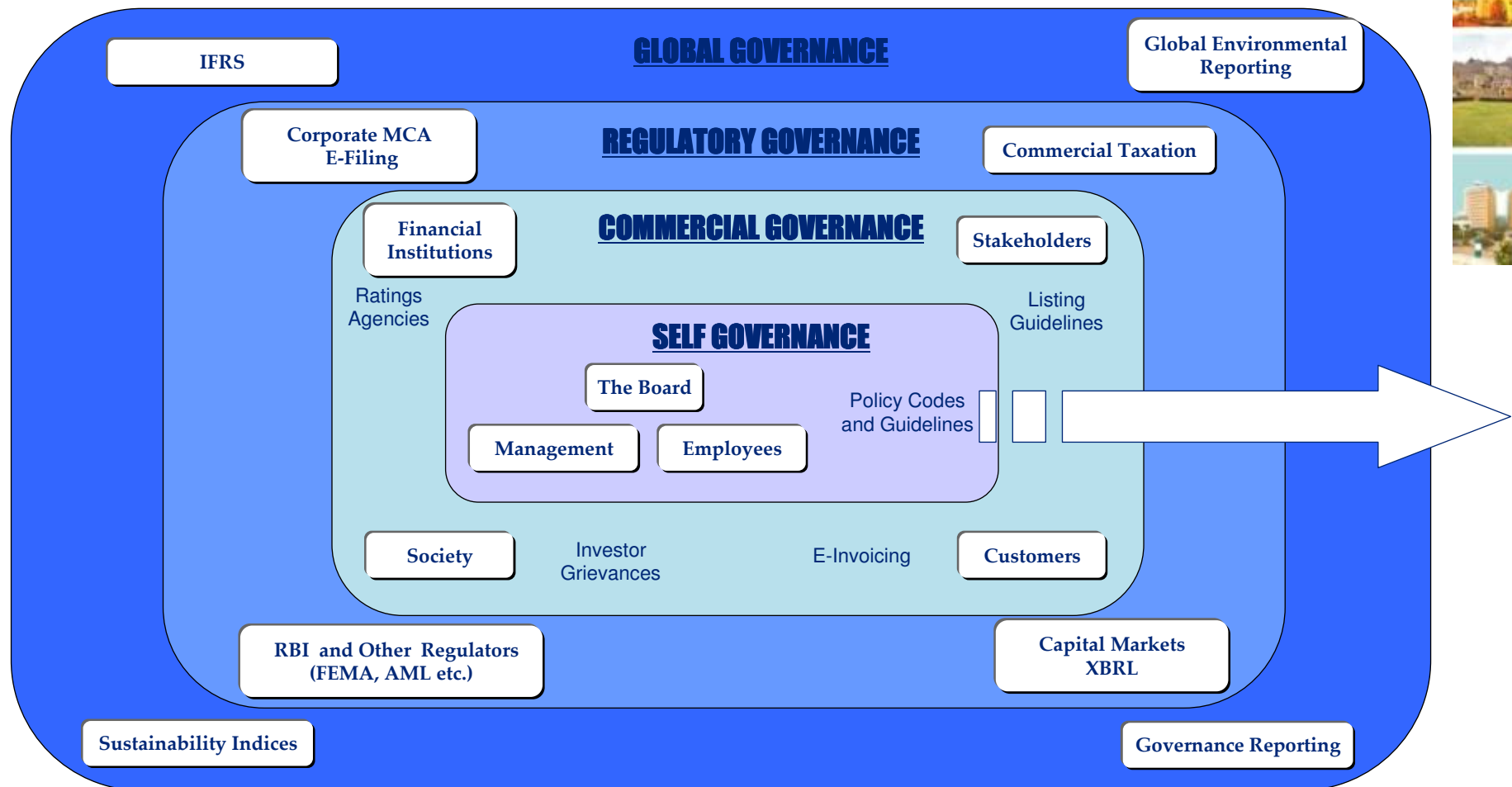


Regulatory Challenges to Financial Disclosures

Shailesh Haribhakti

November 6, 2009

Governance – A Cross Sectional Perspective

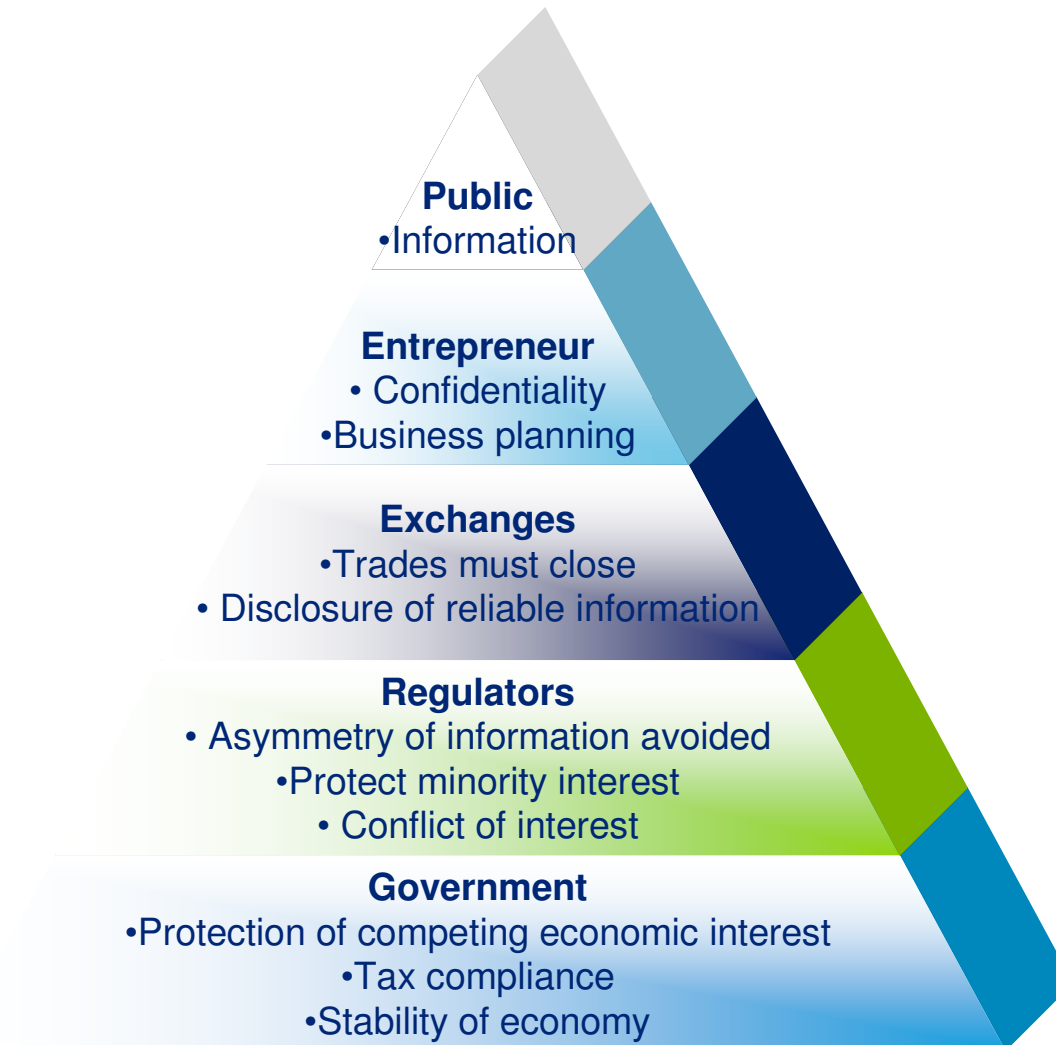


The Truth Imperative

- **Increased globalization**, an **evolving regulatory and legal framework** and **emerging reporting standards** are changing the way that business is conducted.
- The ongoing **shift to an electronic governance environment** with **counterparty verification** has made it imperative for businesses to ensure that they are able to **truthfully record and report on their economic affairs**.
- Companies need to use a platform-driven approach in developing a 360 degree understanding of their operating ecosystem and establishing a **best-governed, risk managed and compliant operating environment (GRC)**.
- In addition, the companies need to build a **fraud-free organization**, using a digital pattern recognition platform to scan company systems in their entirety in order to identify, manage and eliminate any instances of fraud.



The Need For Disclosure



Disclosures mandated by SEBI

- Quarterly results to include promoter and promoter group shareholding with details of pledged shares as per amendment to clause 35 and clause 41.
- Amendment proposed to clause 35 to provide an additional format for disclosures of voting rights pattern in the company.
- Proposed amendment to equity listing agreement to prohibit listed companies from issuing shares with superior rights as to voting or dividend vis-à-vis the rights on equity shares that are already listed.
- Systems audit made mandatory for mutual funds to be conducted once in two years and to be completed for the financial years 2008-10 by September 30, 2010.



Disclosures mandated by RBI

- Systematically important NBFC's need to disclose capital to risk assets ratio (CRAR), exposure to real estate sector (direct & indirect) and maturity pattern of assets & liabilities.
- The auditor has to submit a separate report to the NBFC's board stating compliance with minimum capital adequacy ratio and submission of returns within stipulated time.
- Directions to banks for exposure to real estate sector to be assessed on group basis and consolidated position to be seen.
- Schedule VI amendment requiring disclosure of exposure to micro, small and medium enterprises and subsequent amendment in tax audit form no. 3cd.



IFRS – A step closer towards transparent accounting

The areas to focus on adoption of IFRS are:

Dry Run

- for 2009-10 & 2010-11
- Impact Analysis
- Ensure there are no last minute hiccups

• Fair Value

- Determining fair value in illiquid markets is a difficult and challenging task
- In absence of standardized fair value mechanism, fair valuation will bring more subjectivity to the Financial statements
- Financial statements will be more volatile due to fast changing business conditions

• Cost of Software

- Up gradation of existing software
- Customization of software for obtaining data to fulfill the disclosure requirements of IFRS
- To establish effectiveness of hedge transactions on regular basis
- Training of employees for usage of upgraded / new software

• People's Cost

- Training Cost for knowledge of IFRS



Financial / disclosure implication on adoption of IRFS

Presentation of Financial Statements

- IFRS sets out overall requirements and guidelines for their structures and minimum requirements for their content
- Requires clear segregation of current and non-current items for assets and liabilities
- Disclosures of critical management judgments, key sources of estimation
- Disclosure of Capital Management Policies
- In the profit and loss account, both, functional format and format based on nature of expenses is permitted



Financial / disclosure implication on adoption of IRFS

Consolidated Financial Statements

- Mandatory consolidation
- Mandatory use of uniform accounting policies
- Maximum gap in reporting periods – 3 months
- SPE's need to be consolidated (e.g. PF / Gratuity funds, 'controlled' supplier / vendor)
- The application of equity method or proportionate consolidation of associates/joint ventures is mandatory even if an entity does not have subsidiary
- Potential Voting Rights' that are currently exercisable or convertible shall be considered to assess the existence of 'control'
- Control can be held only by one entity and it is unlikely that two entities would consolidate the same company



Financial / disclosure implication on adoption of IRFS

Revenue - New Concepts

- Recognition revenue from rendering of services under Completion Method is prohibited
- Interest income / expense on financial assets and liabilities, such as loans, FDR, shall be recorded on an effective interest rate basis after considering associated income and expenses
- Specific guidance on sales involving Customer Loyalty Programmes (IFRIC 13)
- Specific Guidance on Accounting of Barter Transactions



Thank you!