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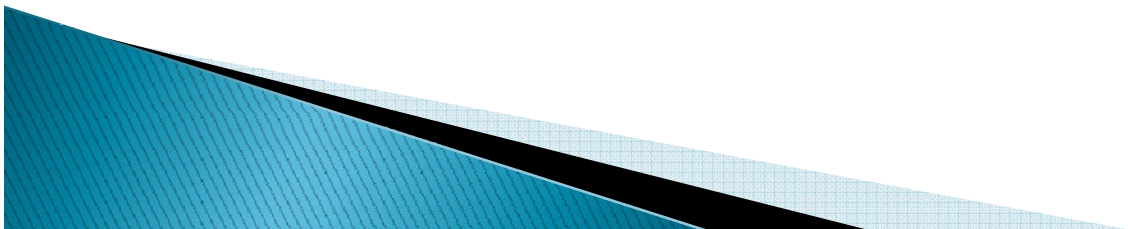
**Improving Disclosures in Financial
Statements – Strengthening Corporate
Governance**

17th Global Conference of Actuaries & 2015 AGFA

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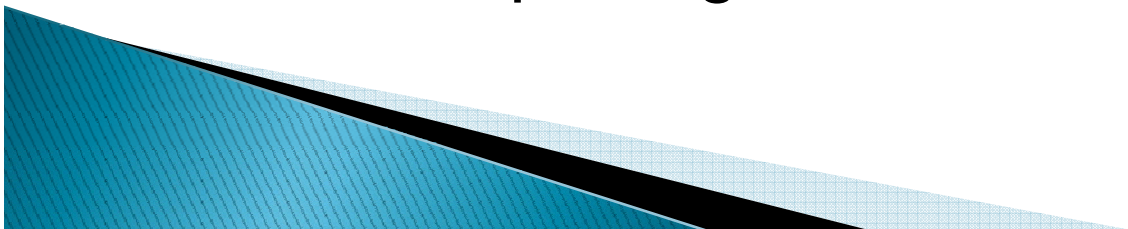
Significance of good financial reporting System

- ▶ Corporate Governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed.
- ▶ Financial reporting is an integral and important part of good corporate governance.
- ▶ It provides the shareholders and other stakeholders, useful information.



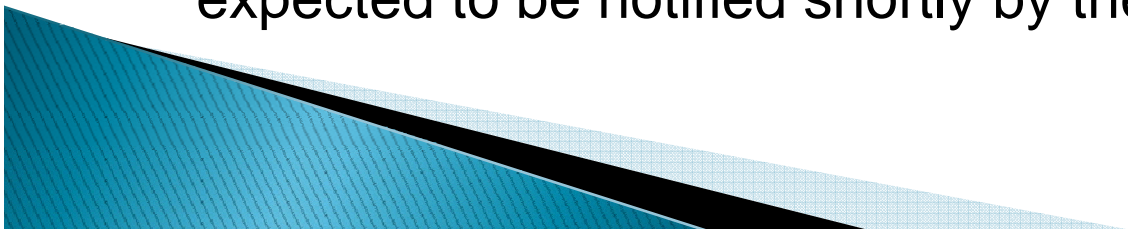
Significance of Accounting Standards in Financial Reporting

- ▶ In order to make sound decisions, it is imperative that the information on which such decisions are based is reliable, comparable and free from any bias.
- ▶ This necessitates the existence of sound, reliable and high quality financial reporting structure in the country.
- ▶ Accounting Standards is a pillar on which the financial reporting structure of a country stands.



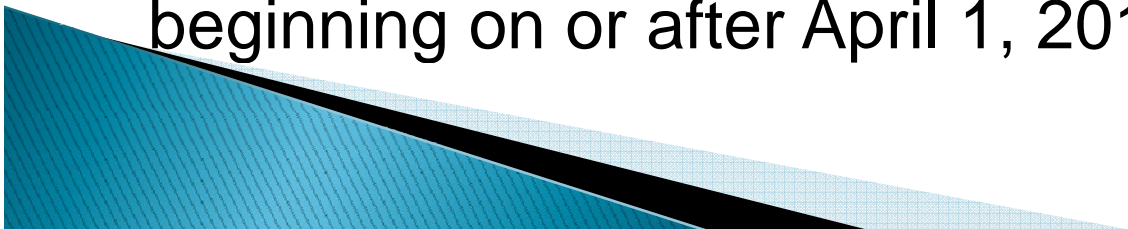
Role of ICAI in establishing sound financial reporting system in the country

- ▶ Keeping in view the need for sound Accounting Standards in the country, the ICAI, being the premier standard-setting body in the country, has been issuing Accounting Standards since 1977.
- ▶ To bring Indian financial reporting system at par with the International Financial Reporting Standards, ICAI in 2007 decided to converge with IFRS.
- ▶ For this purpose, ICAI formulated IFRS-converged Indian Accounting Standards (Ind AS).
- ▶ These Standards have been cleared by the NACAS and are expected to be notified shortly by the Indian Government.

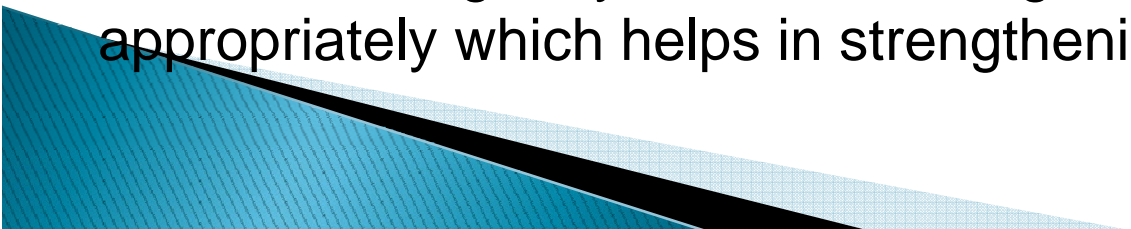


Role of ICAI in establishing sound financial reporting system in the country (contd..)

- ▶ These Standards have been cleared by the NACAS and are expected to be notified shortly by the Indian Government.
- ▶ As per the roadmap issued by the MCA, Ind AS can be followed on voluntary basis from accounting periods beginning on or after April 1, 2015, with comparatives.
- ▶ Certain classes of companies are required follow Ind AS on mandatory basis for the accounting periods beginning on or after April 1, 2016, with comparatives
- ▶ Certain other classes of companies are required follow Ind AS on mandatory basis for the accounting periods beginning on or after April 1, 2017, with comparatives



Improved Disclosures: Strengthening corporate Governance

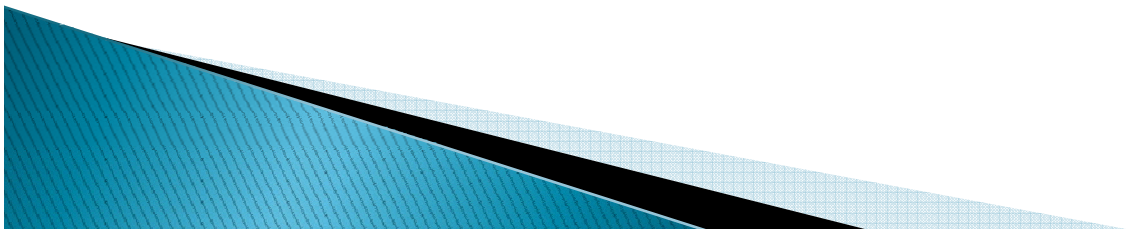
- ▶ Ind AS require much detailed disclosures compared to existing Accounting Standards in terms of quantum and quality, which will lead to improvement in disclosures.
 - ▶ Ind AS are principle-based Standards.
 - ▶ Management has the main role to play in application of the principles contained in Standards in the context of the situations specific to their business.
 - ▶ Detailed disclosures in financial statements help in understanding the management's perspective of application of the standards.
 - ▶ This responsibility of making disclosures as per the standards makes it obligatory on the management to apply the principles appropriately which helps in strengthening corporate governance.
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Improved Disclosures: Strengthening corporate Governance (contd..)

- ▶ Examples of disclosures required under Ind AS leading to strengthening the corporate governance.

Disclosure of risk management policy

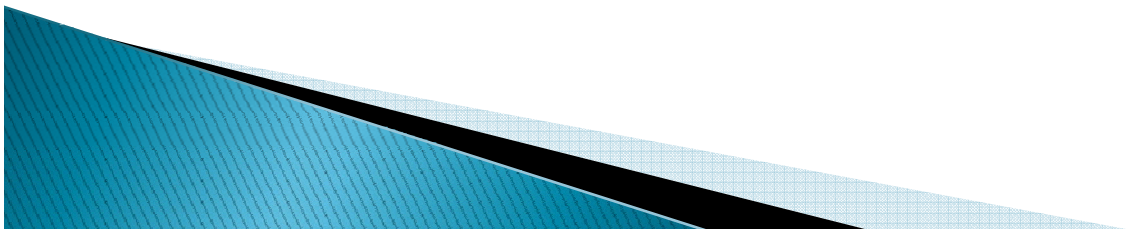
- ▶ Ind AS 107 requires an entity to disclose various risks to which it is exposed and policy to mitigate those risks.
- ▶ This results into assessment of those risks and determination of appropriate policy to manage those risks.
- ▶ Relevant accounting policy would also reflect the risk assessment and its mitigation.
- ▶ This improves corporate governance.



Improved Disclosures: Strengthening corporate Governance (Contd..)

Example

- ▶ If management is required to disclose its foreign currency risk exposure management policy, it would encourage entities to follow more appropriate accounting policy.
- ▶ If the relevant accounting standard requires foreign exchange fluctuations to be recognised in profit or loss, it would encourage entities to hedge the risks rather than keeping the exposure risk open.
- ▶ Such disclosures lead to strengthening the corporate governance as it improves better risk management.

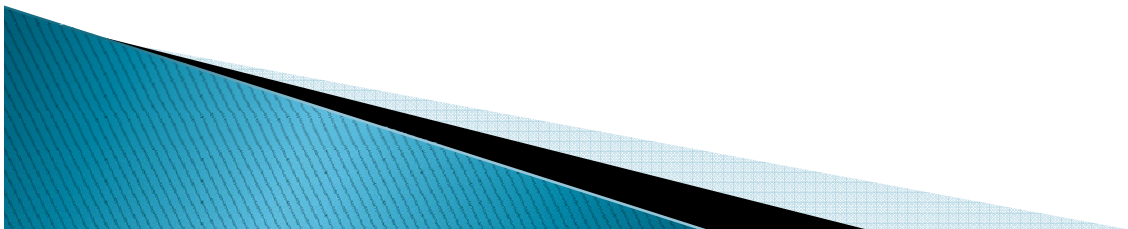


Improved Disclosures: Strengthening corporate Governance (Contd..)

Disclosure of management of resources

- ▶ Ind AS 1 requires an entity to disclose its policies and processes for managing capital.
- ▶ Ind AS 7 requires an entity to present statement of cash flows to assess the ability of the entity to generate cash flows and its needs to utilise those cash flows.

In view of the above disclosure requirements, an entity's management tries to ensure that its resources are utilised optimally leading to better governance.



Improving quality of disclosures

- ▶ Quality of disclosures depends not only on mere compliance with the disclosure requirements of Accounting Standards but also on how user friendly such disclosures are.
- ▶ For example, an entity may simply disclose that VAT is accounted for in accordance with applicable Accounting Standard.

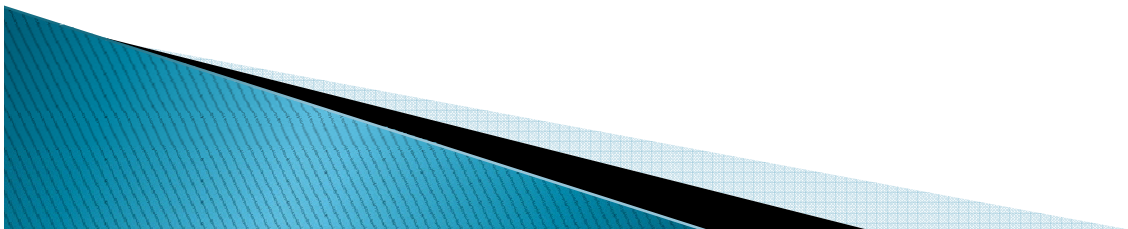
While other entity may disclose that VAT has not been included in income as well as expenses because it is collected on behalf of the Government.

Accounting policies explaining the reasons lead to better information and thus helps in better corporate governance.



Role of ICAI in improving quality of Disclosures

- ▶ ICAI conducts annual competition 'Excellence in Financial Reporting', where awards are given to the entities presenting good quality financial statements
- ▶ FRRB reviews the financial statements of various entities to establish sound financial reporting system in the country.
- ▶ Where major discrepancies are found, appropriate actions are taken.



Thank you

