



Finance Industry Development Council

(A body incorporated as a Self-Regulatory Organisation for Registered NBFCs)

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077 (India)

Tel: 022 21027324/9820035553 · E-mail: maheshthakkar45@yahoo.in website: www.fidcindia.org

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**Shri C D Srinivasan,
Chief General Manager,
Reserve Bank of India,
Department of Non-Banking Regulation,
Central Office, World Trade Centre, 2nd Floor,
Cuffe Parade, MUMBAI 400 005.**

Note on significant changes envisaged in Indian Accounting Standards (Ind AS) and issues that NBFCs may face

The Ind AS to be implemented effective April 2018 requires significant changes to be made by NBFCs in their accounting policies/practices. The significant ones and the concerns and issues are highlighted below:

1. Ind AS mandates recognition of income on loans given on the basis of “effective interest rates”, which are determined on the basis of expected pattern of behaviour of the portfolio taking into account prepayment probability, fee income amortisation, delinquency etc. Currently fee income is usually recognised up front, while interest on all non-NPA loans is recognised on accrual basis. Interest on NPAs is recognised on cash basis. There is no judgement involved and hence comparability of numbers is higher. Under the Ind AS since there is a judgement involved in determining the effective rate, there may be divergence in the way different entities report numbers. We would request the RBI to guide the industry on how these variations can be within a small range so that financial reports can be made comparable.

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2. Recognition of NPA and provision therefor is based on expected credit loss (ECL). ECL may vary across entities and types of businesses depending upon the behaviour expected as per the judgement of the NBFC. This may lead to differences in reporting an account as regular or NPA and on the amount of provision being carried in the accounts.

The following questions may arise and we would request guidance from the RBI on them:

- a. What would this mean in a situation where the NBFC is in a lending consortium? Whose judgement will prevail?
 - b. What are the implications for a Joint Lender Forum mandated to be created in case of SMA2 assets when different lenders may opine differently on the same customer?
3. Provisioning based on ECL may be higher than that required under the current norms. This would impact the profitability of NBFCs adversely. The one-time transition adjustments would also reduce the net worth, in some cases significantly. We request the RBI to consider spreading the one-time adjustment over a period of five years so as to provide relief to the NBFCs and to consider the effective capital adequacy during the transition period after adjusting this adverse impact on CRAR.
 4. There is no clarity on whether Income Tax authorities will consider the new Ind AS as the basis for tax assessments, especially on income recognition and provision for ECL. Absent this clarity, there could be adverse impact on the NBFC's financial position. We request the RBI to kindly take up this issue with the tax authorities.

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5. In respect of purchase of assets (say for own consumption or for leasing out) on credit terms/usance LC basis, the Ind AS states that the difference between the upfront price and the deferred payment price should be recognised as interest expenses and expensed over the credit period. What are the implications of this on GST? Will GST be charged on the total bill (even though a part of the invoice value may be “interest” as per Ind AS)?

6. In respect of Securitisation/Direct assignments, the question of derecognition of the asset being securitised is a critical factor from an NBFC perspective from a CRAR point of view. The Ind AS lays down that derecognition will be dependent upon the selling entity not retaining control and the income/losses will be proportionate to the involvement. It is unclear if continuing to hold 10% of the interest as MRR and retaining servicing rights would be deemed to “retaining control” and therefore will derecognition of the securitised assets would be allowed or not. We request the RBI to kindly look into this aspect.

7. We would request clarity on whether Other Comprehensive Income (OCI) will form part of NOF for the purposes of CRAR or not.

We request the Reserve Bank of India to kindly clarify on these concerns.

Thanking you,

Yours faithfully,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

MAHESH THAKKAR
DIRECTOR GENERAL

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