

# Regulation issues in banking sector

#### What is the issue?

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New accounting standards Ind AS, and GST have impacts on banking sector.

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#### What is Ind AS?

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- Indian Accounting Standards, were issued under the supervision and control of Accounting Standards Board (ASB), which was constituted as a body in the year 1977.
- ASB is a committee under Institute of Chartered Accountants of India (ICAI) which consists of representatives from government department, academicians, and other professional bodies.

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#### What are issues with Ind AS?

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- Implementation All banks must comply with the new Ind AS, for all financial statements form FY2018.
- $\bullet$  If Ind AS comes into force banks will incur additional costs on account of the revised accounting methods.  $\$
- **NPA** Under the existing IRAC (Income Recognition and Asset Classification) norms of the RBI, banks have to mark a loan account as an NPA if the instalment or interest is 90 days overdue, Provisioning is based on the 'past due' concept.

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• Under Ind AS, banks cannot afford to wait for 90 days and the Expected

Credit Loss formula will accelerate the loss recognition early.  $\$ 

- Fair value Banks' investments in government securities are presently kept in the books of account under three categories, namely, held for trading (HFT), available for sale (AFS), and held to maturity (HTM).
- All these classifications will go away in Ind AS and investments will be measured at 'fair value' (market value) on the reporting date.
- This change will have a direct impact on the Profit and loss account of banks.
- **Treatment of staffs** All loans given to staff members at a concessional rate are to be treated at 'fair value' and the attendant loss has to be booked in the accounting system of Ind AS.
- For example, if the housing loan interest rate of a bank is 9 per cent pa and for the staff it is issued at 6 per cent pa, then the differential of 3 per cent has to be treated as hidden loss and has to be recognised in its Profit and loss account.
- Flexibility: The treasury departments of banks will also be denied the flexibility presently available to them to churn the portfolio to the bank's best advantage.

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# What are the impacts of GST over Banking?

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- Additional charges The interest charged on loans and advances, almost all other incomes such as commission on bank loan processing fees, commission on fund transfers and locker rents will attract GST.
- $\bullet$  There is already a hue and exclamation over the charges, how bank could pass on this additional burden to customers is also a big question mark. \n
- Software issues To process this additional taxes the existing software
  of banks has to be suitably modified.
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- Due to rise in number of transactions, banks have to ensure that it does

not result in scalability issues.

- Complications over returns The segregation of registered and unregistered suppliers (of goods and services) have to be done by banks, or else the compilation of returns will become complex and difficult.
- **Expenditure on banks** The input credit for 50 per cent GST on the rent will not be available to banks, unlike how it was in the service tax regime.
- For example, if a building owner, were bank operates happens not to be registered under GST, the bank has to pay 18 per cent GST.
- It can adjust only 50 per cent of it from the GST payable.
- $\bullet$  The balance has to be treated as expenditure to be borne by the bank.  $\ensuremath{^{\backslash n}}$

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### How this issues can be addressed?

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- Operative guidelines of Ind As are awaited from the RBI, it is expected that RBI would provide more clarity on some complex provisions.
- $\bullet$  Both for Ind AS and GST, banks have to install the appropriate software to accommodate the respective requirements.  $\ensuremath{\backslash n}$
- Banks must hasten to harness all their marketing talents and technological skills to navigate and overcome this issues.

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**Source: Business Line** 

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