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.
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- 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.
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- If Ind AS comes into force banks will incur additional costs on account of the revised accounting methods.
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- **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.
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- **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).
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- All these classifications will go away in Ind AS and investments will be measured at 'fair value' (market value) on the reporting date.
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- This change will have a direct impact on the Profit and loss account of banks.
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- **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.
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- 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.
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- **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.
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- 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.
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- **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.
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- **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.
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- **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.
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- 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.
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- It can adjust only 50 per cent of it from the GST payable.
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- The balance has to be treated as expenditure to be borne by the bank.
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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.
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- Both for Ind AS and GST, banks have to install the appropriate software to accommodate the respective requirements.
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- 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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