

Greetings!!!

With the advent of Indian Accounting Standards (Ind AS), a large number of entities in India are set for sweeping changes to their financial reporting and disclosure practices. Many entities have already been subjected to these changes in the financial year ended 31st March 2017. While the transition to Ind AS entailed significant changes in the reporting framework, it also had an impact on various other aspects of the organisation, including information technology (IT) system configurations, business and contracting processes, budgetary controls and decisions of the board and management. With evolving experience and further clarifications, entities have seen substantial changes in reporting requirements due to changes in measurement principles and disclosure requirements. The adoption of Ind AS has indeed paved the way for enhanced comparability of financial statements of Indian companies in line with global standards, thereby leading to a more transparent and relevant disclosure. This requires fair value accounting for many assets and liabilities. Financial instruments, in particular, which meet certain conditions, would now be required to be carried at fair value.

Fair Value Accounting is an alternative approach to measurement that seeks to capture changes in asset and liability values over time. Under the fair value measurement approach, assets and liabilities are re-measured periodically to reflect changes in their value, with the resulting change impacting either net income or other comprehensive income for the period. The result is a balance sheet that better reflects the current value of assets and liabilities. Fair value is the estimated price at which an asset can be sold or a liability is settled in an orderly transaction to a third party under current market conditions.

A primary advantage of fair value accounting is that it provides accurate asset and liability valuation on an ongoing basis to users of a company's reported financial information. When the price of an asset or liability has increased or is expected to increase, the company marks up the value of the asset or liability to its current market price to reflect what it would receive if it sold the asset or would have to pay to relieve itself from the liability. Conversely, the company marks down the value of an asset or liability to reflect any decrease in the market price.

Determining fair value often requires a variety of assumptions, as well as significant judgement. Thus, investors desire timely and transparent information

about how fair value is measured, its impact on current financial statements, and its potential to impact future periods. There are numerous items for which fair value measurements are required or permitted. ASC 820 and IFRS 13 ("the fair value standards") provide authoritative guidance on fair value measurement.

Fair value accounting can also present challenges to companies and users of their reported financial information. Conditions of the markets in which certain assets and liabilities are traded may fluctuate often and even become volatile at times. Applying fair value accounting, companies re-evaluate the current value of certain assets and liabilities even in volatile market conditions, potentially creating large swings in the value of those assets and liabilities.

Fair value continues to be an important measurement basis in financial reporting. It provides information about what an entity might realize if it sold an asset or might pay to transfer a liability. In recent years, the use of fair value as a measurement basis for financial reporting has been expanded, even as the debate over its usefulness to stakeholders continues. The increased use of fair value requires companies to refresh measurement policies and procedures. Companies should analyze how fair value is determined when no active market exists, and establish procedures to develop the appropriate disclosures. Valuation professionals may need to be involved early in the process.

This issue presents a good number of articles on the cover story theme 'Fair Value Accounting: Changing Contour of Financial Reporting in India' by distinguished experts and authors. We look forward to constructive feedback from our readers on the articles and overall development of the journal. Please send your mails at [editor@icmai.in](mailto:editor@icmai.in). We thank all the contributors to this important issue and hope our readers enjoy the articles.

