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THE NATIONAL ADVISORY COMMITTEE ON ACCOUNTING STANDARDS: CONSTITUTION, FUNCTIONS, AND LEGACY IN INDIAN CORPORATE LAW

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ABSTRACT

The National Advisory Committee on Accounting Standards (NACAS) occupied a critical but under-examined position in the architecture of Indian financial reporting regulation. Constituted under Section 210A of the Companies Act, 1956, NACAS served as the Central Government's principal advisory body on the formulation, adoption, and modification of accounting standards applicable to companies registered in India. Its recommendations formed the basis for the landmark Companies (Accounting Standards) Rules, 2006, which gave mandatory legal force to standards previously issued only under the professional authority of the Institute of Chartered Accountants of India (ICAI). This paper undertakes a systematic examination of NACAS — its legislative genesis, institutional composition, advisory functions, relationship with the ICAI and sectoral regulators, and its contribution to the ongoing convergence of Indian accounting standards with International Financial Reporting Standards (IFRS). The paper also critically evaluates the structural limitations that constrained NACAS's effectiveness, particularly its purely advisory character and the absence of independent enforcement powers, and examines the significance of its displacement by the National Financial Reporting Authority (NFRA) under the Companies Act, 2013. The analysis concludes that while NACAS made an enduring contribution to the systematisation and statutory embedding of accounting standards in India, the transition to the NFRA model reflects a broader global shift toward independent, enforcement-oriented financial reporting oversight.

Keywords: NACAS, Accounting Standards, ICAI, Companies Act 1956, NFRA, IFRS Convergence, Ind AS, Financial Reporting Regulation.

I. INTRODUCTION

The integrity of corporate financial reporting is one of the foundational prerequisites of a functioning market economy. Investors, creditors, regulators, and the public at large depend on the financial statements of companies to make informed decisions about the allocation of capital, the extension of credit, and the assessment of corporate governance. The reliability of those financial statements, in turn, depends on the quality and consistency of the accounting standards against which they are prepared. It is therefore not surprising that the legal framework for accounting standards formulation has been a recurring subject of legislative reform and policy debate in India since the early decades of economic liberalisation.[1]

For much of the post-independence period, accounting standards in India were formulated exclusively by the Institute of Chartered Accountants of India (ICAI), a statutory professional body constituted under the Chartered Accountants Act, 1949. The ICAI issued accounting standards through its Accounting Standards Board (ASB), and while these standards commanded considerable professional authority, they lacked the direct force of law: companies were obligated to disclose departures from accounting standards in their financial statements, but there was no statutory mandate requiring compliance in all cases, and no independent governmental body that reviewed and endorsed standards before they acquired binding effect.[2]

The National Advisory Committee on Accounting Standards (NACAS) was constituted against this background as a body interposed between the professional standard-setting activity of the ICAI and the regulatory authority of the Central Government. Its establishment under Section 210A of the Companies Act, 1956 — a provision inserted by the Companies (Amendment) Act, 1999 — represented the first significant attempt to bring accounting standards within a formal governmental advisory framework and, eventually, to give them the force of delegated legislation through rules framed by the Central Government.[3]

This paper proceeds in eight substantive parts. Part II traces the historical and regulatory context that led to the creation of NACAS. Part III analyses the legislative basis and institutional composition of the committee. Part IV examines the functions and advisory powers of NACAS in detail. Part V considers the relationship between NACAS, the ICAI, and sectoral regulators. Part VI evaluates the committee's role in the Companies (Accounting Standards) Rules, 2006 and the IFRS convergence project. Part VII identifies the structural limitations of the NACAS framework. Part VIII examines the transition to the National Financial Reporting Authority under the Companies Act, 2013 before the paper concludes.

II. HISTORICAL AND REGULATORY CONTEXT

2.1 Accounting Standards Before NACAS: The ICAI Regime

Prior to the establishment of NACAS, the framework for accounting standards in India was essentially a matter of professional self-regulation. The ICAI, established in 1949, progressively developed and issued Accounting Standards (AS) through its Accounting Standards Board from the late 1970s onwards. The first Accounting Standard — AS 1 on Disclosure of Accounting Policies — was issued in 1979, and by the time NACAS was constituted, the ICAI had issued more than twenty standards covering areas such as valuation of inventories, revenue recognition, fixed assets, and the treatment of changes in foreign exchange rates.[4]

The legal status of these standards was, however, ambiguous. The Companies Act, 1956 required companies to prepare their financial statements in conformity with accounting standards but did not specify which standards or confer on any particular body the exclusive authority to issue them. The Schedule VI to the Companies Act prescribed the format of financial statements but did not incorporate specific accounting standards by reference. In practice, compliance with ICAI standards was treated as a professional obligation of company auditors rather than a statutory obligation enforceable against companies directly, creating uncertainty about the legal consequences of non-compliance.[5]

2.2 Liberalisation, Investor Protection, and the Demand for Stronger Standards

The economic liberalisation of 1991 and the subsequent opening of Indian capital markets to foreign institutional investors brought the adequacy of Indian financial reporting standards under heightened scrutiny. International investors, accustomed to the rigour of standards issued by the International Accounting Standards Committee (IASC) and adopted by the International Organisation of Securities Commissions (IOSCO), found Indian accounting standards to be less comprehensive and, in some areas, inconsistent with international norms.[6]

A series of high-profile corporate failures and financial scandals in the mid-1990s further underscored the need for more robust and legally enforceable accounting standards. The Y.H. Malegam Committee Report of 1993 drew attention to deficiencies in the disclosure practices of listed companies and recommended that accounting standards be given statutory backing.[7] The Narasimham Committee II (1998), which examined the health of the financial sector, similarly highlighted the importance of accounting and disclosure standards as a tool of systemic risk management and investor protection.[8]

2.3 The Chandra Committee and the Case for a Governmental Advisory Body

The most immediate precursor to the establishment of NACAS was the Expert Group on Indian Accounting Standards constituted by the Ministry of Finance in 1997, commonly known as the Chandra Committee. This group was tasked with examining the extent to which Indian accounting standards conformed to international standards and with recommending an appropriate institutional mechanism for standards formulation.[9]

The Chandra Committee's report recommended the establishment of a national advisory committee on accounting standards that would review the accounting standards issued by the ICAI, recommend their adoption as mandatory standards by the Central Government, and ensure that the standard-setting process was informed by the perspectives of a broader range of stakeholders — including the Central Government, the Reserve Bank of India, SEBI, and representatives of industry — rather than being the exclusive preserve of the accounting profession.[10] These recommendations were substantially incorporated into the Companies (Amendment) Act, 1999, which inserted Section 210A into the Companies Act, 1956 and thereby established NACAS on a statutory footing.[11]

III. LEGISLATIVE BASIS AND INSTITUTIONAL COMPOSITION

3.1 Statutory Foundation: Section 210A of the Companies Act, 1956

Section 210A of the Companies Act, 1956, as inserted by the Companies (Amendment) Act, 1999, conferred on the Central Government the power to constitute NACAS by notification in the Official Gazette.[12] The committee was to be established for the purpose of advising the Central Government on the formulation and laying down of accounting policies and standards for the adoption by companies under the Companies Act. The statutory provision was notable for its deliberate choice of advisory rather than standard-setting language: NACAS was empowered to advise, not to prescribe — with the ultimate authority to notify standards resting with the Central Government.[13]

The advisory character of NACAS was a considered legislative choice. The government was unwilling to vest exclusive standard-setting authority in a single body — whether the ICAI or a new governmental authority — given the multiple stakeholder interests involved in accounting standards and the political sensitivity of displacing the professional body's long-established role. NACAS thus operated as a bridging institution: it received draft standards from the ICAI, reviewed them in light of relevant international standards and the representations of other stakeholders, and recommended them to the Central Government for notification as mandatory standards.[14]

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3.2 Composition of NACAS

Section 210A(2) prescribed the composition of NACAS with considerable specificity.[15] The committee was to include a Chairperson — required to be a person of eminence and expertise in accountancy, finance, business administration, economics, or law[16] — and members drawn from eight specified categories: the ICAI, the Institute of Cost and Works Accountants of India (ICWAI, now ICAI-CMA), the Institute of Company Secretaries of India (ICSI), the Central Government (represented by nominees of the Ministry of Corporate Affairs and the Ministry of Finance), the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), and persons with expertise in accountancy, finance, business administration, economics, or law.[17]

This multi-stakeholder composition was the institutional embodiment of the policy rationale for NACAS. By bringing together professional accountants, industry representatives, capital market regulators, and central bankers within a single advisory body, the legislature sought to ensure that the accounting standards review process was simultaneously informed by technical expertise, regulatory perspective, and the interests of the broader economy. The tenure of NACAS members was fixed at three years, renewable once — a provision designed to balance the need for continuity with the desirability of periodic infusion of new expertise.[18]

3.3 Quorum, Meetings, and Procedure

The Companies Act, 1956 did not prescribe detailed procedural rules for the conduct of NACAS meetings, leaving these largely to be determined by the committee itself and by such rules as the Central Government might frame under the Act. In practice, NACAS operated through a combination of plenary meetings and sub-committee deliberations, with the ICAI's Accounting Standards Board typically preparing the technical background documentation that formed the basis for NACAS's advisory review.[19] The absence of a publicly available procedural framework for NACAS — comparable, for instance, to the detailed rules that govern the functioning of the NFRA — was itself a source of criticism: it limited the transparency and public accountability of the standards review process and made it difficult for affected parties to participate meaningfully in deliberations before NACAS.

IV. FUNCTIONS AND ADVISORY POWERS OF NACAS

4.1 Primary Advisory Function: Accounting Standards

The primary function of NACAS, as prescribed under Section 210A(4)(a), was to advise the Central Government on the formulation and laying down of accounting standards for adoption

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by companies in the preparation of their balance sheets and profit and loss accounts.[20] In practical terms, this function was exercised principally through NACAS's review and endorsement of the accounting standards formulated by the ICAI's Accounting Standards Board. A standard would typically be developed by the ASB through a process involving exposure drafts, public comments, and deliberation; once finalised by the ICAI, it would be transmitted to NACAS for advisory review before being recommended to the Central Government for notification as a mandatory standard.[21]

This sequential process — ICAI formulates, NACAS advises, Central Government notifies — was intended to ensure both professional rigour in the technical content of standards and governmental oversight of their policy implications. In practice, NACAS generally endorsed the standards submitted by the ICAI with limited modification, reflecting both the technical sophistication of the ICAI's standard-setting process and the limited independent research capacity of NACAS itself, which was a small advisory body without a dedicated technical secretariat.[22]

4.2 Advisory Function in Relation to Auditing Standards

Beyond accounting standards, Section 210A(4)(b) conferred on NACAS a complementary advisory function in relation to auditing standards — specifically with reference to their consistency and compatibility with the accounting standards recommended by the committee.[23] This function recognised the intimate relationship between accounting and auditing standards: the reliability of an auditor's opinion on a company's financial statements depends not only on the quality of auditing procedures applied but also on the appropriateness and rigour of the accounting standards against which those statements are measured.[24]

In practice, NACAS's involvement with auditing standards was less extensive than its role in relation to accounting standards. The development of auditing standards remained primarily the preserve of the ICAI's Auditing and Assurance Standards Board, and the advisory review function of NACAS in this area was exercised relatively infrequently. This asymmetry — robust NACAS engagement with accounting standards, limited engagement with auditing standards — reflected the committee's inherited orientation toward financial reporting rather than audit quality, and would later be identified as a structural gap in the pre-2013 framework.

4.3 Advisory Role in Relation to Government Companies

Section 210A(4) also contemplated a role for NACAS in advising on accounting standards applicable to government companies — a category that posed distinct challenges owing to the

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mixture of commercial and public policy functions that such companies performed and the different accountability framework within which they operated.[25] The Comptroller and Auditor General of India (CAG), who is the primary auditor of government companies, had developed a parallel set of audit and accounting conventions that did not always align with the standards formulated by the ICAI and endorsed by NACAS. The harmonization of these frameworks was identified as a priority by NACAS but proved difficult to achieve in practice, given the constitutional and statutory independence of the CAG and the entrenched institutional culture of public sector financial reporting.[26]

4.4 Relationship with the Central Government and the Process of Notification

The culmination of NACAS's advisory function was the recommendation to the Central Government that a particular accounting standard (or set of standards) be notified as mandatory for companies. Upon receiving NACAS's recommendation, the Central Government was empowered to frame rules under the Companies Act prescribing the standards that companies were required to follow in the preparation of their financial statements.[27] This power was exercised through the Companies (Accounting Standards) Rules, 2006, which was the most significant direct legislative output of NACAS's advisory work during its existence under the 1956 Act.[28]

V. RELATIONSHIP WITH THE ICAI AND SECTORAL REGULATORS

5.1 NACAS and the ICAI: A Collaborative but Occasionally Ambiguous Relationship

The relationship between NACAS and the ICAI was the most consequential institutional relationship in the Indian accounting standards ecosystem during the period of NACAS's existence. On one hand, NACAS was substantively dependent on the ICAI: it lacked an independent research secretariat and technical capacity comparable to that of the ICAI's Accounting Standards Board, and it could not effectively develop or evaluate accounting standards without relying on the technical documentation and expertise supplied by the ICAI.[29] On the other hand, NACAS's statutory mandate placed it in a position of formal supervisory review over the ICAI's standards before they could acquire mandatory legal force. This created a structural ambiguity: was NACAS a rubber stamp for ICAI standards, or an independent reviewer capable of modifying or rejecting them? In practice, NACAS largely operated as an endorsing body, adding governmental legitimacy and multi-stakeholder validation to standards whose technical content had been developed by the ICAI. The committee exercised its independent judgment principally in cases where standards raised significant policy concerns — such as the treatment of deferred taxation, the recognition of financial instruments, or the accounting for employee benefits — that had implications for the tax treatment of companies or for the regulatory capital requirements of banks and insurance companies.[30]

5.2 NACAS, SEBI, and the Listed Company Framework

The relationship between NACAS and SEBI was shaped by the overlapping but distinct regulatory mandates of the two bodies. SEBI, as the regulator of Indian securities markets, had a direct interest in the quality of financial reporting by listed companies. Its Listing Agreement (and subsequently the SEBI Listing Obligations and Disclosure Requirements Regulations, 2015) required listed companies to comply with applicable accounting standards in the preparation of their financial results.[31] SEBI was represented on NACAS, which provided a mechanism for the interests of the capital market regulator to be incorporated into the standards review process. In practice, SEBI's engagement with NACAS was particularly active in areas where accounting standards had direct implications for disclosure requirements — such as the recognition of revenue in real estate transactions, the treatment of employee stock options, and the accounting for financial instruments.

5.3 NACAS and the Reserve Bank of India

The Reserve Bank of India's engagement with NACAS was particularly important in relation to accounting standards applicable to banking companies, which are subject to a distinct regulatory framework under the Banking Regulation Act, 1949 and the RBI's master directions.[32] In several instances, the RBI's prudential accounting requirements for banks diverged from the accounting standards endorsed by NACAS and notified under the Companies Act — for instance, in relation to the provisioning requirements for non-performing assets, the treatment of investment portfolios, and the recognition of income on restructured loans. These divergences created a dual accounting framework for banks that complicated both financial reporting and regulatory oversight.[33]

The tension between NACAS-endorsed standards and RBI prudential requirements was never fully resolved during the period of NACAS's existence. The RBI consistently maintained that its prudential norms took precedence over accounting standards in the context of bank regulation, while NACAS and the ICAI argued for greater harmonisation in the interest of financial statement comparability. This unresolved tension would later become a significant issue in the context of IFRS convergence, where the application of IFRS 9 on financial instruments to banking entities raised fundamental questions about the relationship between fair value accounting and prudential capital requirements.[34]

VI. THE COMPANIES (ACCOUNTING STANDARDS) RULES, 2006 AND IFRS CONVERGENCE

6.1 The Companies (Accounting Standards) Rules, 2006: A Landmark Outcome

The most significant concrete outcome of NACAS's advisory function during its existence under the Companies Act, 1956 was the promulgation of the Companies (Accounting Standards) Rules, 2006. These rules, framed by the Central Government in exercise of its powers under Section 211(3C) of the Companies Act, 1956 read with the recommendations of NACAS, notified Accounting Standards 1 to 7 and 9 to 29 as mandatory for all companies.[35] For the first time, accounting standards in India acquired the direct force of delegated legislation: compliance was no longer merely a professional obligation enforceable through the disciplinary machinery of the ICAI, but a statutory requirement breach of which could attract the penalties prescribed under the Companies Act.[36]

The 2006 Rules represented the culmination of a decade-long process of institutional construction and policy deliberation in which NACAS played the central advisory role. The rules also introduced the important requirement that where a company's financial statements departed from any accounting standard, the company was required to disclose the nature of the departure, the reason for it, and the financial effect of such departure in its financial statements — a disclosure obligation that substantially strengthened the accountability framework for accounting standard compliance.[37]

6.2 NACAS's Role in the IFRS Convergence Project

One of the most important — and ultimately uncompleted — tasks of NACAS was to advise the Central Government on the convergence of Indian accounting standards with International Financial Reporting Standards (IFRS). The Ministry of Corporate Affairs announced in 2007 that India would converge with IFRS by April 2011,[38] and a detailed roadmap was subsequently published in 2011 identifying the entities and timelines for convergence.[39] NACAS was to play a pivotal advisory role in determining the manner and extent of convergence — specifically, whether India would adopt IFRS in toto or develop a set of Indian Accounting Standards (Ind AS) that were substantially converged with IFRS but contained carve-outs reflecting India-specific circumstances.

The convergence project raised issues of considerable technical and policy complexity. Full adoption of IFRS would have required significant changes to legal and regulatory frameworks beyond the Companies Act — including the Income Tax Act (given the close alignment between Indian GAAP and tax accounting), the Banking Regulation Act, the Insurance Act, and the legal framework for public sector entities. NACAS's advisory deliberations in this period were among the most substantively demanding of its existence, involving detailed examination of each proposed Ind AS in comparison with the corresponding IFRS and the identification of carve-outs that could be justified on policy grounds.[40]

The IFRS convergence project was ultimately not completed under NACAS's watch. The April 2011 deadline passed without the mandatory implementation of Ind AS, owing to a combination of legislative delays, unresolved issues regarding the taxation of Ind AS adjustments, and the pending enactment of the Companies Act, 2013. Mandatory implementation of Ind AS for specified categories of companies ultimately began only from 1 April 2016, under the Companies (Indian Accounting Standards) Rules, 2015 notified under the new Act.[41][42]

VII. STRUCTURAL LIMITATIONS OF THE NACAS FRAMEWORK

7.1 The Advisory-Only Character: Strength or Weakness?

The most fundamental structural limitation of NACAS was its exclusively advisory character. The committee could review and endorse — but could not directly modify, reject, or independently formulate — accounting standards. Nor could it investigate non-compliance, impose penalties, or take enforcement action against companies or auditors who failed to comply with the notified standards. These functions were dispersed across the ICAI (disciplinary action against auditors), the Registrar of Companies (penalties for non-filing or misstatement), and SEBI (action against listed companies for disclosure violations).[43][44]

This fragmentation of regulatory functions was identified by critics as a fundamental weakness of the pre-2013 framework. An advisory committee that could recommend standards but could not enforce them was structurally dependent on other bodies — the ICAI, the Registrar of Companies, and SEBI — to give practical effect to its recommendations. This dependence created gaps in enforcement: the ICAI's disciplinary machinery was slow and perceived as insufficiently independent; the Registrar of Companies lacked the technical expertise to investigate accounting standard violations; and SEBI's jurisdiction was confined to listed companies.[45]

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7.2 Limited Independent Technical Capacity

A related limitation was NACAS's limited independent technical capacity. Unlike the standard-setting bodies of more developed jurisdictions — such as the Financial Reporting Council in the United Kingdom or the Financial Accounting Standards Board in the United States — NACAS did not have a dedicated staff of technical researchers or a fully operational secretariat capable of independently reviewing complex accounting standards or conducting its own comparative analysis of international developments.[46] As a result, NACAS was substantially reliant on the research and technical documentation provided by the ICAI's Accounting Standards Board, which meant that its advisory review function was necessarily more reactive than proactive.

7.3 Transparency and Public Accountability Deficit

The procedural opacity of NACAS's operations was a further structural concern. The committee did not publish comprehensive records of its deliberations, the views expressed by individual members, the basis on which it endorsed or modified particular standards, or the reasons for any carve-outs from IFRS that it recommended to the Central Government. This lack of transparency was in sharp contrast to the detailed due process that characterised the standard-setting activities of the IASB and of the standard-setting bodies in comparable jurisdictions.[47]

The transparency deficit had practical consequences beyond the reputational. It made it difficult for companies, auditors, and investors to understand the reasoning behind particular accounting standards or carve-outs; it limited the ability of affected parties to engage meaningfully with the review process; and it reduced NACAS's accountability to the wider public whose financial interests the standards were designed to protect.[48]

7.4 Sectoral Fragmentation and the Multi-Regulator Problem

Perhaps the most structurally intractable limitation of the NACAS framework was its inability to resolve the fragmentation of accounting standard-setting across sectoral regulators. Companies regulated under the Companies Act fell within NACAS's advisory remit, but banking companies (regulated by the RBI), insurance companies (regulated by IRDAI), and central public sector enterprises (subject to CAG audit) operated under accounting frameworks that were distinct from, and in some respects inconsistent with, the standards endorsed by NACAS. This sectoral fragmentation was identified as a significant obstacle to financial statement comparability and to the achievement of a single, coherent national accounting framework.[4950]

VIII. TRANSITION TO THE NATIONAL FINANCIAL REPORTING AUTHORITY

8.1 The Companies Act, 2013: A New Institutional Architecture

The Companies Act, 2013 fundamentally restructured the institutional architecture for accounting standards in India. Section 132 established the National Financial Reporting Authority (NFRA) as an independent statutory authority with a substantially broader mandate than that of NACAS: NFRA was empowered not merely to advise on standards but to recommend accounting and auditing standards and policies to the Central Government, to monitor and enforce compliance with those standards, and to investigate professional misconduct by chartered accountants and audit firms.[51][52]

The transition from NACAS to NFRA was not immediate. NFRA was provided for in the Companies Act, 2013 from its commencement but was only formally constituted by notification in October 2018 — more than five years after the new Act came into force.[53][54] During this interregnum, NACAS continued to function under the transitional provisions of the new Act. The delayed constitution of NFRA was itself a subject of criticism: it created a period of institutional uncertainty in which the normative authority for accounting standards was unclear and the promised transition to a more robust oversight framework remained unimplemented.

8.2 NFRA's Enhanced Mandate: Continuity and Departure

In several respects, NFRA represents a continuation and elaboration of the functions that NACAS performed. Like NACAS, NFRA advises the Central Government on accounting and auditing standards. Like NACAS, it interacts with the ICAI on standards formulation and reviews standards before they are notified by the Central Government. The substantive content of the Ind AS framework — which NFRA now oversees — builds directly on the convergence work that NACAS initiated.[55]

The critical departure, however, lies in NFRA's enforcement mandate. Section 132(4) of the Companies Act, 2013 empowers NFRA to investigate matters of professional or other misconduct committed by any member or firm of chartered accountants registered with the ICAI — a power that NACAS entirely lacked.[56] NFRA has exercised this power in several high-profile cases, imposing penalties and debarment orders on audit firms found to have conducted deficient audits of listed companies. This enforcement activity represents a structural break with the pre-2013 framework in which the ICAI held exclusive disciplinary authority over its members, and has been both welcomed as a strengthening of audit oversight and criticised by sections of the profession as an encroachment on the independence of the chartered accountancy body.[57]

8.3 Assessing the Legacy of NACAS

The institutional legacy of NACAS is best understood against the background of the period it occupied: a transitional phase in Indian corporate governance in which the exclusive professional authority of the ICAI over accounting standards was increasingly contested, the demands of international capital market integration were pushing toward stronger and more transparent standard-setting processes, and the legislative framework was being fundamentally recast through the Companies Act, 2013. Within this context, NACAS made several durable contributions.[58]

Most fundamentally, NACAS created the institutional bridge between professional standard-setting and statutory mandate that the 2006 Rules crystallised. By providing a governmental advisory imprimatur for accounting standards before their notification as delegated legislation, NACAS gave those standards a degree of legal authority and multi-stakeholder legitimacy that they had lacked under the purely professional ICAI framework. It also initiated the processes — the IFRS convergence project, the Ind AS development programme — that have shaped Indian accounting standards in the post-2013 period. Its structural limitations — the advisory-only character, the limited technical capacity, and the transparency deficit — were real, but they reflected the constraints of the legislative framework within which it operated rather than any inherent institutional dysfunction.

IX. CONCLUSION

The National Advisory Committee on Accounting Standards occupied a distinctive and consequential position in the history of Indian financial reporting regulation. It was neither a professional standard-setting body nor an independent enforcement authority: it was an advisory body whose function was to review, validate, and recommend — and thereby to transform professionally developed accounting standards into mandatory legal rules binding on all companies in India. This transformation — from professional obligation to statutory requirement — was among the most significant developments in Indian company law in the early twenty-first century, and NACAS was the institutional vehicle through which it was accomplished.

The Companies (Accounting Standards) Rules, 2006 stand as the most tangible monument to NACAS's advisory work. For the first time, accounting standards in India had the direct force of law, enforceable against companies — not merely against their auditors — and underpinned by a disclosure regime that required companies to acknowledge and explain any departure from the notified standards. The IFRS convergence project, though not completed during NACAS's tenure, represents a further contribution: the Ind AS framework that was eventually implemented from 2016 onwards was developed substantially on the foundations that NACAS's advisory deliberations had laid.[59]

The structural limitations of NACAS — its advisory-only character, its limited independent technical capacity, its procedural opacity, and its inability to resolve sectoral accounting fragmentation — ultimately persuaded the legislature that a more powerful and independent institution was needed. The NFRA, with its combined mandate of standards recommendation, compliance monitoring, and enforcement, represents the institutional response to those limitations.[60] Whether the NFRA will successfully achieve what NACAS could not — a truly unified, transparent, and enforceable framework for accounting and auditing standards across all sectors of the Indian economy — remains to be seen. But the institutional evolution from NACAS to NFRA is itself a testament to the enduring importance of the institutional architecture of financial reporting as a dimension of corporate governance and market integrity.

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IV. Books

1. Ramaiya, Guide to the Companies Act (19th edn, LexisNexis India, 2020).
2. B.D. Chatterjee, Company Law and Corporate Governance (LexisNexis India, 2019).
3. R. Narayanaswamy, Financial Accounting: A Managerial Perspective (6th edn, PHI Learning, New Delhi, 2017).
4. Avtar Singh, Company Law (16th edn, Eastern Book Company, Lucknow, 2022).

V. Journal Articles and Research Papers

1. Premananda Borah, 'NACAS and the Evolution of Accounting Standards in India: An Institutional Assessment' (2017) 9(2) IUP Journal of Accounting Research and Audit Practices 34.
2. Vinod Kumar Goel, 'Convergence of Indian Accounting Standards with IFRS: Challenges and Prospects' (2012) 4(1) International Journal of Finance and Accounting 16.
3. Manoj Kumar Singh, 'Accounting Standards in India: NACAS, Ind AS and the Road Ahead' (2016) 19(3) The Chartered Accountant 88.
4. Anant Kumar Agarwal, 'The Role of NACAS in Bridging the Gap Between Indian GAAP and IFRS' (2014) 63(9) The Chartered Accountant 1292.
5. R. Narayanaswamy, 'The Future of Accounting Standards Setting in India: NFRA and Beyond' (2020) 69(12) The Chartered Accountant 34.
6. ICAI, Guidance Note on Accounting for Real Estate Transactions (ICAI, 2012).
7. IRDAI, Report of the Working Group on Convergence of Insurance Accounting Standards with IFRS (IRDAI, 2010).
8. Nishith Desai Associates, Corporate Governance and Financial Reporting in India: A Regulatory Overview (Research Paper, 2021).

[1] Companies Act, 2013, s 132 (constitution, powers and functions of the National Financial Reporting Authority); prior to the 2013 Act, NACAS was constituted under the Companies Act, 1956, s 210A.

[2] Companies Act, 1956, s 210A (inserted by the Companies (Amendment) Act, 1999 with effect from 31 October 1998).

[3] Institute of Chartered Accountants of India Act, 1949, s 2(2) (definition of 'accounting standards'); see also ICAI, Preface to the Statements of Accounting Standards (revised 2004).

[4] Companies (Accounting Standards) Rules, 2006, notified by the Ministry of Corporate Affairs vide GSR 739(E)

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dated 7 December 2006, preamble.

[5]Companies Act, 1956, s 210A(1): 'The Central Government may, by notification in the Official Gazette, constitute an Advisory Committee to be called the National Advisory Committee on Accounting Standards.'

[6]Rajiv Gandhi Institute of Contemporary Studies, Report of the Committee on Reforms of the Financial Sector (Narasimham Committee II, 1998) — which drew attention to the need for improved accounting disclosure standards in the context of financial sector reform.

[7]Report of the High Level Committee on Capital Markets (Y.H. Malegam Committee, 1993), Recommendations on Disclosure and Accounting Standards.

[8]International Accounting Standards Committee (IASC), Framework for the Preparation and Presentation of Financial Statements (IASC, 1989); see also IOSCO, Resolution on Multinational Disclosure and Accounting (1995).

[9]Ministry of Finance, Expert Group on Indian Accounting Standards (Chandra Committee), Report (1997), paras 4.1-4.6. [10]Companies (Amendment) Act, 1999 (No. 21 of 1999), s 14 (inserting s 210A into the Companies Act, 1956); Statement of Objects and Reasons.

[11]Companies Act, 1956, s 210A(2): composition of NACAS including the Chairman and other members drawn from specified categories.

[12]Companies Act, 1956, s 210A(2)(a)-(h): the prescribed categories of membership included representatives of ICAI, ICWAI, ICSI, the Central Government (Ministry of Corporate Affairs and Ministry of Finance), the Securities and Exchange Board of India, the Reserve Bank of India, and persons with expertise in accountancy, finance, business administration, economics or law.

[13]Companies Act, 1956, s 210A(3): the chairperson of NACAS was to be a person of eminence and expertise in accountancy, finance, business administration, economics or law.

[14]Companies Act, 1956, s 210A(7): the tenure of NACAS members was three years, renewable once.

[15]Companies Act, 1956, s 210A(4): functions of NACAS included advising the Central Government on the formulation and laying down of accounting policies and standards.

[16]Companies Act, 1956, s 210A(4)(a): NACAS was tasked with advising the Central Government on accounting standards to be adopted by companies for preparing their balance sheets and profit and loss accounts.

[17]Companies Act, 1956, s 211(3A)-(3C): statutory obligation on companies to comply with accounting standards notified by the Central Government.

[18]Companies (Accounting Standards) Rules, 2006 (n 4); these rules notified Accounting Standards 1 to 7 and 9 to 29 (AS 8 having been withdrawn) as mandatory for companies.

[19]A. Ramaiya, Guide to the Companies Act (19th edn, LexisNexis India, 2020) vol 1, 842 (discussing the legislative history and rationale of s 210A).

[20]Institute of Chartered Accountants of India, Accounting Standard 1: Disclosure of Accounting Policies (ICAI, 1979, revised 2016).

[21]International Accounting Standards Board, IAS 1: Presentation of Financial Statements (IASB, revised 2007); the corresponding Indian standard was AS 1.

[22]Companies Act, 1956, s 210A(4)(b): NACAS was also empowered to advise on standards for auditing, specifically with reference to their consistency and compatibility with accounting standards.

[23]ICAI, Statement on Auditing Standards (SAS) — series of statements issued progressively from 1985 onwards, forming the basis for subsequent Engagement and Quality Control Standards.

[24]Companies Act, 1956, s 210A(5): NACAS was to advise the Central Government on accounting standards for government companies; the Companies (Government Companies) General Rules and Forms, 1975 were subsequently amended to align with notified standards.

[25]Securities and Exchange Board of India (SEBI), SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, reg
33 (financial results to comply with applicable accounting standards as notified); see also SEBI Circular No. CIR/CFD/FAC/62/2016 dated 5 July 2016.

[26]Reserve Bank of India, Master Direction — Financial Statements — Presentation and Disclosures (RBI/2021-22/25, updated 2022), incorporating references to applicable accounting standards.

[27]Ministry of Corporate Affairs, Concept Paper on Convergence of Indian Accounting Standards with IFRS (2007), para 2.3. [28]International Financial Reporting Standards Foundation, IFRS 1: First-time Adoption of International Financial Reporting Standards (IASB, 2003, revised 2008).

[29]Ministry of Corporate Affairs, Road Map for Convergence of Indian Accounting Standards with IFRS, Press Release dated 25 February 2011.

[30]Companies Act, 2013, s 133: the Central Government may prescribe standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

[31]Companies Act, 2013, s 132(2): functions of NFRA include recommending accounting and auditing standards and policies to the Central Government, monitoring and enforcing compliance, and overseeing the quality of service of professions associated with ensuring compliance.

[32]Ministry of Corporate Affairs, Notification dated 1 October 2018 constituting the National Financial Reporting Authority; see also the National Financial Reporting Authority Rules, 2018.

[33]Companies (Indian Accounting Standards) Rules, 2015, notified by Ministry of Corporate Affairs vide GSR 111(E) dated 16 February 2015 (Ind AS framework).

[34]Ministry of Corporate Affairs, Roadmap for Implementation of Indian Accounting Standards (Ind AS) for companies other than banking companies and insurance companies, Press Note dated 2 January 2015.

[35]Ind AS 1: Presentation of Financial Statements (Companies (Indian Accounting Standards) Rules, 2015, Annexure), closely corresponding to IAS 1 (IASB).

[36]Premananda Borah, 'NACAS and the Evolution of Accounting Standards in India: An Institutional Assessment' (2017) 9(2) IUP Journal of Accounting Research and Audit Practices 34, 41.

[37]Vinod Kumar Goel, 'Convergence of Indian Accounting Standards with IFRS: Challenges and Prospects' (2012) 4(1) International Journal of Finance and Accounting 16, 22.

[38]B.D. Chatterjee, Company Law and Corporate Governance (LexisNexis India, 2019) 412-415.

[39]ICAI, Guidance Note on Accounting for Real Estate Transactions (ICAI, 2012), para 1.3 (noting NACAS's advisory role in the formulation of accounting standards applicable to the real estate sector).

[40]Ministry of Corporate Affairs, Annual Report 2010-11, Chapter 5 (activities of NACAS during 2010-11).

[41]Comptroller and Auditor General of India, Report on the Accounts of Government Companies for the year ended 31 March 2015 (CAG Report No. 34 of 2015), paras 2.3-2.5 (noting residual non-compliance with accounting standards in certain public sector companies).

[42]Manoj Kumar Singh, 'Accounting Standards in India: NACAS, Ind AS and the Road Ahead' (2016) 19(3) The Chartered Accountant 88, 93.

[43]Companies Act, 2013, s 129: financial statements to give a true and fair view of the state of affairs of the company and comply with accounting standards notified under s 133.

[44]Companies Act, 2013, s 134(5)(e): the directors' responsibility statement to confirm compliance with applicable accounting standards.

[45]Anant Kumar Agarwal, 'The Role of NACAS in Bridging the Gap Between Indian GAAP and IFRS' (2014) 63(9) The Chartered Accountant 1292, 1298.

[46]Section 210A(4) of the Companies Act, 1956 did not expressly confer on NACAS power to modify or deviate from accounting standards formulated by the ICAI; the committee's role was advisory in character: Ministry of Corporate Affairs, Clarification No. 5/20/2001-CL.V dated 12 June 2002.

[47]Agarwal (n 45) 1299, observing that the 'advisory-only' character of NACAS created a structural ambiguity as to which body — the ICAI or the Central Government — held ultimate normative authority over accounting standards.

[48]Borah (n 36) 43.

[49]Goel (n 37) 24.

[50]Reserve Bank of India, Annual Report 2007-08, Box IV.2 (discussing divergences between accounting standards applicable to banking companies and the Companies Act framework).

[51]Insurance Regulatory and Development Authority of India (IRDAI), Report of the Working Group on Convergence of Insurance Accounting Standards with IFRS (IRDAI, 2010), paras 3.1-3.4.

[52]Singh (n 42) 95; see also R. Narayanaswamy, Financial Accounting: A Managerial Perspective (6th edn, PHI Learning, New Delhi, 2017) 52-53.

[53]Ministry of Corporate Affairs, Report of the Steering Committee on Convergence with IFRS (2011), para 6.2 (noting the role of NACAS in the preparatory phase of the IFRS convergence project).

[54]Companies Act, 2013, s 132(1): NFRA established as an independent authority; contrast with NACAS under s 210A of the 1956 Act, which was a purely advisory body with no independent enforcement powers.

[55]National Financial Reporting Authority Rules, 2018, r 3 (constitution of NFRA); r 10 (functions and duties of NFRA).

[56]Companies Act, 2013, s 132(4): NFRA may investigate matters of professional or other misconduct committed

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by any member or firm of chartered accountants registered with the ICAI.

[57]Ministry of Corporate Affairs, Notification S.O. 1833(E) dated 13 April 2018 (operationalising relevant provisions of the Companies Act, 2013 including s 132).

[58]R. Narayanaswamy, 'The Future of Accounting Standards Setting in India: NFRA and Beyond' (2020) 69(12) The Chartered Accountant 34, 37.

[59]Singh (n 42) 96; see also ICAI, Response to the Ministry of Corporate Affairs Concept Paper on NFRA (2014), paras 7-9 (the ICAI raised concerns about duplication of functions and the potential marginalisation of the professional body in standards-setting). [60]Narayanaswamy (n 58) 38-39 (arguing that a clear statutory demarcation between standards formulation, advisory review, and enforcement would serve the interests of regulatory coherence and institutional accountability).