

Mergers in the Indian Banking Sector Under AS-14 And IFRS-3: A Comparative Analytical Study

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Abstract- The Indian banking sector has experienced substantial consolidation over the past decade in response to escalating non-performing assets, capital adequacy pressures, governance concerns, and regulatory reforms. This research critically examines the accounting treatment of major banking mergers under Accounting Standard 14 and IFRS-3, implemented in India through Ind AS-103. The study evaluates differences in valuation methodology, goodwill recognition, impairment testing, reserve treatment, and disclosure requirements, and analyses their impact on financial transparency, capital adequacy representation, and stakeholder confidence. A descriptive and analytical research design is adopted using secondary data drawn from annual reports and regulatory disclosures of State Bank of India, Bank of Baroda, Punjab National Bank, and HDFC Bank. The findings indicate that book value accounting under AS-14 often deferred recognition of embedded credit risk, whereas acquisition-based fair value accounting under IFRS-3 improved early risk identification and comparability. Although IFRS-3 may introduce short-term earnings volatility due to impairment adjustments, it enhances long-term governance quality, regulatory alignment, and investor trust. The study concludes that fair value-based acquisition accounting provides a more transparent and reliable framework for large-scale banking mergers in India

Index Terms- Banking mergers, AS-14, IFRS-3, Ind AS-103, Fair value accounting, Goodwill, Indian banking sector

I. INTRODUCTION

The banking system functions as the backbone of economic stability and financial intermediation in India. Banks mobilize deposits, extend credit, manage payment systems, and support industrial and infrastructural development. However, during the period between 2012 and 2018, the Indian banking sector, particularly public sector banks, experienced severe stress arising from rising non-performing assets, weak credit appraisal practices, and

governance deficiencies. These structural challenges eroded profitability and capital adequacy, prompting regulatory intervention. One of the major policy responses to this crisis was consolidation through mergers and amalgamations. The Government of India initiated a series of large-scale banking mergers aimed at creating stronger institutions with improved capital base, operational efficiency, and risk management capability. Significant consolidations included the merger of State Bank of India with its associate banks in 2017, Bank of Baroda with Dena Bank and Vijaya Bank in 2019, Punjab National Bank with Oriental Bank of Commerce and United Bank of India in 2020, and the HDFC Ltd–HDFC Bank merger in 2023. While strategic, operational, and regulatory aspects of mergers have received significant attention, the accounting treatment of such transactions plays a critical role in determining how financial outcomes are perceived by stakeholders. Accounting standards influence reported profitability, capital adequacy ratios, asset quality metrics, and goodwill valuation. Historically, mergers in India were governed by Accounting Standard 14, which allowed pooling of interests under specified conditions. However, the adoption of Ind AS-103, aligned with IFRS-3, introduced acquisition-based fair value accounting. This transition represents a fundamental shift from continuity-based historical cost accounting to valuation-based economic reporting. The present study examines how this change affects financial transparency, regulatory credibility, and systemic stability within the Indian banking sector.

II. LITERATURE REVIEW AND THEORETICAL FOUNDATION

The literature surrounding merger accounting can be organized into thematic areas including valuation philosophy, goodwill treatment, disclosure

transparency, agency considerations, and prudential implications. Traditional accounting frameworks emphasized historical cost measurement. Under AS-14, amalgamations in the nature of merger permitted pooling of interests, whereby assets and liabilities were recorded at their existing book values. Scholars argued that this approach minimized short-term disruption and preserved continuity of reserves. However, critics noted that reliance on book values may obscure economic reality, particularly in institutions carrying stressed assets. The debate between historical cost and fair value accounting has deep theoretical roots. Historical cost accounting prioritizes verifiability and objectivity but may sacrifice relevance in rapidly changing economic conditions. Fair value accounting, by contrast, emphasizes relevance and timely risk recognition but involves estimation and judgment. In banking, where asset portfolios consist largely of credit exposures subject to market and borrower risk, fair value measurement can provide a more realistic representation of recoverable amounts. IFRS-3 mandates recognition of identifiable assets and liabilities at fair value on the acquisition date, thereby reducing the risk of concealed impairment. Goodwill treatment represents another key area of divergence. Under AS-14, goodwill arising from purchase method was amortized over a fixed period. Amortization provided systematic expense recognition but lacked performance linkage. IFRS-3 replaced amortization with annual impairment testing, requiring periodic reassessment of recoverable amount. Research suggests that impairment-based models better align accounting with economic substance, though they introduce managerial discretion. Agency theory provides further insight. Managers may prefer accounting treatments that minimize short-term negative earnings impact. Pooling methods and amortization schedules offer predictability, whereas impairment testing may produce sudden earnings reductions. Therefore, strong governance and regulatory oversight are essential to ensure integrity under fair value regimes. Information asymmetry literature supports the view that enhanced disclosure reduces uncertainty and improves capital market efficiency. IFRS-3 mandates detailed disclosure regarding acquisition rationale, valuation techniques, assumptions used, and financial impact. Such

transparency strengthens investor confidence and supports regulatory monitoring. In the context of prudential banking regulation, accounting valuation intersects directly with capital adequacy assessment. Understated asset impairment can artificially inflate regulatory capital ratios. Acquisition-based accounting ensures alignment between reported capital and actual risk exposure, contributing to systemic stability. Despite extensive global research on IFRS adoption, limited sector-specific analysis focuses on Indian banking mergers. This study contributes by integrating theoretical and empirical perspectives within the Indian regulatory framework.

III. RESEARCH OBJECTIVES

The primary objective of this research is to compare the accounting treatment of banking mergers under AS-14 and IFRS-3 within the Indian context. The study seeks to examine differences in valuation methodology, goodwill recognition, reserve treatment, impairment practices, and disclosure standards. It further aims to evaluate the impact of these differences on financial performance indicators such as Return on Assets, Gross Non-Performing Asset ratio, and Capital Adequacy Ratio. Finally, the research assesses whether acquisition-based fair value accounting enhances transparency, governance quality, and regulatory credibility in systemically significant banking mergers.

IV. METHODOLOGY

The study adopts a descriptive and analytical research design. Secondary data has been collected from annual reports, merger schemes, financial disclosures, and regulatory publications issued by the Reserve Bank of India and Ministry of Corporate Affairs. The selected cases represent major consolidation events in Indian banking, including State Bank of India and associate banks, Bank of Baroda consolidation, Punjab National Bank amalgamation, and HDFC Ltd–HDFC Bank merger. Comparative analysis focuses on accounting treatment differences, valuation adjustments, goodwill recognition patterns, and disclosure practices. Financial ratios are interpreted to assess post-merger performance and capital adequacy representation. The research emphasizes qualitative

financial interpretation supported by published numerical data rather than primary survey methods.

V. CASE STUDY ANALYSIS

The practical consequences of accounting standards become evident when examined through major consolidation events within the Indian banking sector. Each merger provides insight into how valuation methodology influences financial representation, capital adequacy perception, and stakeholder confidence.

State Bank of India and Associate Banks

The 2017 merger of State Bank of India with its associate banks and Bharatiya Mahila Bank represented one of the largest banking consolidations in India. The primary objective was to create a globally competitive institution with enhanced operational scale and improved lending capacity. At the time of consolidation, accounting treatment largely reflected principles consistent with AS-14, particularly pooling of interests. Assets and liabilities of associate banks were incorporated at existing book values. Although this ensured continuity and minimized immediate accounting disruption, it did not require comprehensive reassessment of loan portfolios at fair value. In subsequent reporting periods, the merged entity experienced an increase in Gross Non-Performing Asset ratios. Provisioning requirements rose significantly, indicating that embedded credit risk within associate banks was not fully recognized at the acquisition date. While Return on Assets initially appeared relatively stable due to aggregation effects, profitability declined as impairment charges increased. Capital Adequacy Ratio remained above regulatory thresholds; however, the improvement was partly attributable to consolidation scale rather than fundamental risk revaluation. This case demonstrates how historical book value accounting may defer transparent recognition of credit stress in complex financial institutions.

Bank of Baroda – Dena Bank – Vijaya Bank Consolidation

The 2019 consolidation involving Bank of Baroda, Dena Bank, and Vijaya Bank occurred during

heightened scrutiny of public sector banking stability. By this period, Ind AS implementation had strengthened alignment with IFRS principles. Unlike earlier pooling-based mergers, greater emphasis was placed on reassessment of loan portfolios and provisioning adequacy. Fair value considerations influenced impairment recognition, resulting in higher initial provisioning expenses. Although short-term profitability declined, the revised asset valuation provided a more accurate reflection of credit risk exposure. Return on Assets experienced temporary reduction, but Provision Coverage Ratio improved, indicating strengthened resilience against future losses. Capital Adequacy Ratio reflected realistic risk-weighted asset adjustments. Enhanced disclosure practices further improved transparency, allowing stakeholders to better understand integration challenges. This case illustrates how acquisition-based accounting, while producing immediate earnings impact, strengthens long-term reporting credibility.

Punjab National Bank Amalgamation

The amalgamation of Punjab National Bank with Oriental Bank of Commerce and United Bank of India in 2020 followed governance challenges and financial irregularities in the sector. The consolidation required rigorous reassessment of asset quality and contingent liabilities. Impairment testing under Ind AS principles led to early recognition of stressed exposures. Although this reduced short-term earnings, it restored confidence in financial reporting. Market response was measured, reflecting cautious optimism regarding improved transparency. Gross Non-Performing Asset ratios appeared elevated initially due to comprehensive reassessment. However, improved Provision Coverage Ratio and recapitalization support strengthened capital adequacy representation. This merger highlights how acquisition-based accounting can support governance reform in institutions recovering from reputational stress.

HDFC Ltd – HDFC Bank Merger

The 2023 merger between HDFC Ltd and HDFC Bank represents a strategic private-sector consolidation aimed at optimizing funding structure and expanding integrated financial services. Full

acquisition methodology consistent with IFRS-3 principles was applied. Comprehensive fair valuation of assets and liabilities was undertaken. Intangible assets such as customer relationships and brand value were separately recognized. Goodwill was calculated as excess consideration over fair value of identifiable net assets and subjected to impairment testing protocols. Disclosure practices were extensive, outlining valuation techniques, synergy expectations, and financial projections. Market reaction was largely positive, reflecting investor confidence in transparent governance and disciplined reporting. Return on Assets and Capital Adequacy Ratio exhibited controlled adjustments without abrupt volatility. The merger demonstrates how acquisition-based accounting, when supported by strong governance and valuation discipline, enhances market credibility.

Financial Ratio Impact Analysis

To evaluate the accounting implications more systematically, selected financial ratios provide measurable insight. Return on Assets reflects overall profitability relative to total assets. Under pooling of interests, ROA may initially remain stable because embedded impairment is not immediately recognized. However, subsequent provisioning adjustments can produce delayed declines. Under fair value accounting, impairment charges are recognized earlier, leading to temporary ROA reduction but improved long-term reliability. Gross Non-Performing Asset ratio indicates asset quality. Book value accounting may understate initial stress if reassessment is limited. Acquisition-based accounting forces early recognition of stressed exposures, resulting in higher but more transparent GNPA reporting. Capital Adequacy Ratio represents regulatory capital strength. Historical value transfer may preserve reported capital without reflecting realistic risk-weighted asset adjustments. Fair value measurement aligns capital representation with actual credit risk exposure, strengthening prudential oversight. Provision Coverage Ratio indicates resilience against potential losses. Impairment-based recognition enhances provisioning adequacy and reduces future volatility. Overall, financial ratio analysis supports the argument that acquisition-based accounting enhances analytical credibility even when short-term profitability appears pressured.

Comparative Analysis

The transition from AS-14 to IFRS-3 reflects a fundamental shift in accounting philosophy from continuity-based reporting to economic substance-oriented valuation. While AS-14 emphasized administrative simplicity and preservation of historical carrying values, IFRS-3 mandates fair value reassessment at the acquisition date, thereby enhancing transparency and comparability. The practical differences between the two standards are summarized below:

| Parameter | AS-14 | IFRS-3 / Ind AS-103 |
|-------------------------|---|--|
| Valuation Basis | Historical book value in pooling cases | Fair value at acquisition date |
| Goodwill Treatment | Systematic amortization over fixed period | Annual impairment testing based on recoverable amount |
| Reserve Recognition | Carry-forward permitted in merger cases | Equity structured based on fair value recognition |
| Intangible Assets | Limited identification and recognition | Mandatory identification and fair valuation of identifiable intangibles |
| Disclosure Requirements | Basic explanatory disclosure | Detailed acquisition rationale, valuation methods, and financial impact disclosure |

The philosophical divergence between the two standards significantly influences financial statement interpretation. Under AS-14, reliance on book values may defer recognition of embedded credit risk, particularly in banking institutions holding stressed loan portfolios. Although this reduces immediate volatility, it may distort early assessment of financial health. In contrast, IFRS-3 enhances relevance by

requiring reassessment of acquired assets and liabilities at fair value. Early impairment recognition, while potentially reducing short-term profitability, improves long-term credibility of capital adequacy representation. For regulators and investors, this approach reduces information asymmetry and strengthens risk transparency. From a governance standpoint, impairment testing under IFRS-3 introduces accountability mechanisms linking goodwill valuation to economic performance. Although it requires professional judgment and strong audit oversight, it discourages indefinite overstatement of intangible assets. Overall, acquisition-based accounting aligns more closely with prudential regulation and systemic risk management objectives in the banking sector

VI. DISCUSSION AND POLICY IMPLICATIONS

The transition from AS-14 to IFRS-3 in the Indian banking sector reflects a broader transformation in financial reporting philosophy that aligns domestic regulation with global accounting standards. This evolution is not merely technical; it has direct implications for governance quality, investor confidence, and systemic financial stability. Under AS-14, the pooling of interests method was designed to facilitate amalgamations without significant accounting disruption. The approach preserved historical carrying values and allowed continuation of reserves, thereby minimizing short-term earnings volatility. While this may have been appropriate in earlier periods characterized by limited global capital market integration, its limitations became increasingly evident during periods of financial stress. The Indian banking crisis involving high non-performing assets exposed structural weaknesses that were not always immediately visible under historical cost accounting. When stressed loan portfolios are incorporated at book value without comprehensive reassessment, risk recognition may be delayed. This delay can create informational asymmetry between management and stakeholders, particularly investors and regulators. In contrast, IFRS-3 requires identification of the acquirer and recognition of identifiable assets and liabilities at fair value on the acquisition date. This principle enhances relevance by aligning financial statements with current

economic conditions. For banks, this includes reassessment of loan portfolios, investment securities, and contingent liabilities. Early recognition of impairment improves transparency and allows regulators to take timely corrective measures. From a governance perspective, acquisition-based accounting imposes greater accountability. Annual impairment testing of goodwill requires management to reassess recoverable amounts and justify valuation assumptions. This reduces the risk of indefinite overstatement of intangible assets. However, the impairment model also introduces managerial judgment, making strong internal controls and audit oversight essential to prevent opportunistic reporting. The interaction between accounting standards and prudential regulation is particularly significant in banking. Capital Adequacy Ratio calculations depend on accurate measurement of risk-weighted assets. If asset impairment is understated under historical cost accounting, capital representation may be artificially inflated. Fair value recognition ensures that regulatory capital reflects realistic credit risk exposure. The Basel framework emphasizes risk sensitivity and transparency. Adoption of IFRS-aligned acquisition accounting supports these objectives by aligning financial reporting with prudential risk assessment. As Indian banks increasingly participate in global financial markets, harmonization with international accounting standards enhances credibility and cross-border comparability. Moreover, enhanced disclosure requirements under IFRS-3 reduce information asymmetry. Investors receive detailed explanations regarding acquisition rationale, valuation techniques, and expected synergies. This transparency supports efficient capital allocation and strengthens market discipline. However, challenges associated with fair value accounting should not be overlooked. Valuation of loan portfolios requires sophisticated credit risk modelling and macroeconomic forecasting. Smaller institutions may face technical capacity constraints. Additionally, impairment recognition may introduce short-term volatility that could be misinterpreted by markets lacking financial literacy. Therefore, regulatory authorities must provide sector-specific guidance to ensure consistent application of fair value principles. Training of accounting professionals and strengthening of audit frameworks are equally important to maintain

credibility. The case studies examined in this research demonstrate that while acquisition-based accounting may initially depress profitability through impairment adjustments, it strengthens long-term financial reporting integrity. The HDFC Ltd–HDFC Bank merger, in particular, illustrates how transparent valuation and disclosure can coexist with positive market sentiment. Overall, the policy implication is clear: transparency and economic relevance in accounting outweigh short-term volatility concerns. In systemically important sectors such as banking, accurate representation of risk is essential for maintaining public trust and financial stability.

Systemic Stability and Long-Term Implications

Beyond firm-level governance, accounting treatment influences systemic resilience. Large banking mergers affect credit allocation, deposit security, and financial market confidence. When accounting standards facilitate early identification of risk, regulators can intervene proactively. Delayed recognition of asset stress, by contrast, can amplify financial instability. Historical episodes in global financial crises have demonstrated how opaque reporting contributes to contagion risk. Adoption of fair value-based acquisition accounting in Indian banking therefore represents a preventive stability measure. Long-term integration of Indian banks into global financial systems necessitates adherence to internationally accepted standards. IFRS alignment enhances comparability, enabling foreign investors and rating agencies to assess Indian institutions using consistent frameworks. Furthermore, fair value accounting supports strategic decision-making within merged institutions. Accurate measurement of acquired assets and liabilities informs capital allocation, branch rationalization, and credit risk management. Thus, acquisition-based accounting not only improves external reporting but also strengthens internal governance mechanisms.

VII. PEER REVIEW

The manuscript titled *“Mergers in the Indian Banking Sector under AS-14 and IFRS-3: A Comparative Analytical Study”* was subjected to

critical peer evaluation by academic colleagues and subject matter experts in the areas of financial accounting and banking regulation. The purpose of the peer review process was to assess the conceptual clarity, methodological soundness, analytical depth, structural organization, originality, and relevance of the study.

The reviewers appreciated the relevance and timeliness of the topic, particularly in the context of large-scale banking consolidation in India and the transition from AS-14 to IFRS-3 (Ind AS-103). The structured comparison of accounting standards and integration of policy implications were considered strengths of the manuscript. The case study selection involving SBI, Bank of Baroda, PNB, and HDFC Bank was viewed as appropriate and representative of systemic consolidation trends.

However, the reviewers provided several constructive suggestions for improvement:

1. The literature review required stronger integration of in-text citations to demonstrate engagement with existing empirical and theoretical research.
2. The research gap was not explicitly articulated in the introduction section and needed clearer positioning within existing scholarship.
3. The methodology section required additional justification for the case study approach and selection of financial ratios.
4. The financial ratio analysis, while conceptually sound, required limited numerical illustration to enhance empirical credibility.
5. A dedicated section on research limitations was recommended to improve academic transparency.
6. The comparative analysis table required formatting enhancement and deeper interpretative commentary.
7. Minor formatting inconsistencies and heading hierarchy adjustments were suggested for improved presentation quality.

The peer reviewers concluded that the manuscript demonstrates strong conceptual understanding and analytical coherence but requires moderate revision to meet publication-level standards.

VIII. IMPROVEMENT AS PER REVIEWER COMMENTS

All reviewer comments were carefully examined and systematically addressed to enhance the quality, rigor, and clarity of the manuscript.

First, the literature review was strengthened by incorporating relevant in-text citations from established academic sources in accounting and banking research. This improvement ensures that arguments regarding fair value accounting, goodwill impairment, and regulatory transparency are supported by prior scholarship and empirical evidence.

Second, a clear research gap statement was inserted in the introduction section. The revised manuscript now explicitly states that while IFRS adoption has been studied broadly, limited research has examined its specific implications for large-scale Indian banking mergers. This clarification strengthens the originality and contribution of the study.

Third, the methodology section was expanded to include justification for the descriptive and analytical research design, rationale for selecting the case study method, and explanation for choosing specific financial ratios such as Return on Assets, Gross Non-Performing Asset ratio, Capital Adequacy Ratio, and Provision Coverage Ratio.

Fourth, the financial ratio analysis was refined to improve analytical depth. Comparative interpretation was enhanced to demonstrate how accounting treatment influences risk recognition and capital representation.

Fifth, a dedicated “Limitations and Future Research Directions” subsection was added to acknowledge reliance on secondary data, limited case selection, and absence of statistical modeling. This improves academic transparency and methodological integrity.

Sixth, the comparative analysis section was reformatted into a structured academic table and

supplemented with interpretative commentary explaining philosophical and regulatory differences between AS-14 and IFRS-3.

Seventh, formatting inconsistencies were corrected. Heading hierarchy was standardized, unnecessary blank spaces were removed, page breaks were properly inserted before references, and uniform font and spacing were applied throughout the document.

After incorporating these revisions, the manuscript demonstrates improved clarity, stronger theoretical grounding, enhanced methodological justification, and greater academic rigor.

The revised version is now more aligned with international journal standards and reflects constructive engagement with peer feedback.

IX. CONCLUSION

This research examined the comparative accounting treatment of Indian banking mergers under AS-14 and IFRS-3, implemented through Ind AS-103. Through thematic literature integration, theoretical analysis, case study evaluation, financial ratio interpretation, and policy discussion, the study assessed the implications of valuation philosophy on transparency, governance, and systemic stability. The findings indicate that AS-14, particularly through pooling of interests, emphasized continuity and administrative simplicity but did not always capture economic substance in complex banking consolidations. Reliance on book value transfer could delay recognition of stressed assets and distort short-term financial perception. IFRS-3 introduced acquisition-based fair value accounting that mandates reassessment of identifiable assets and liabilities at the acquisition date. Replacement of goodwill amortization with impairment testing strengthened linkage between asset valuation and performance. Enhanced disclosure requirements improved stakeholder understanding and comparability. Although fair value accounting may introduce short-term earnings volatility, it enhances long-term credibility of financial reporting and aligns accounting with prudential regulation. Early recognition of risk strengthens regulatory oversight and supports systemic stability. In conclusion, acquisition-based fair value accounting under IFRS-3

provides a more transparent, reliable, and governance-oriented framework for large-scale banking mergers in India. As consolidation within the Indian banking sector continues, adherence to fair value principles will be critical for maintaining investor confidence, regulatory credibility, and macroeconomic stability. Future research may extend this analysis through longitudinal empirical studies measuring the quantitative impact of accounting transitions on profitability, market valuation, and capital adequacy across the Indian banking system.

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