ACCA

# Towards greater convergence

## Assessing CFO and investor perspectives on global reporting standards

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# Foreword by Helen Brand, ACCA CEO

**ACCA is pleased to present this report on the effects of global standards, as seen through the eyes of accounts preparers and users.**

The issue of global standards in accounting can hardly be more topical. The US regulator, the Securities & Exchange Commission, is in the final stages of deliberating on whether the US should adopt International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) rather than complying with US GAAP. And the G20 summit of world leaders will take place in November, when they will be expecting an update on progress to convergence, having in previous summits called for the establishment of one set of common reporting standards as one part of the effort to bring the global economy back into good order.

We believe it is particularly important that the views of investors are heard in the debate on financial reporting standards. It has often proved difficult for users to provide consistent input and a coherent voice in the standard-setting process, and policy-makers have not always seen investors as the appropriate starting point for a debate on the value of accounting or auditing standards. The danger of this is that the very people whom accounts are supposed to be prepared for are effectively excluded from the decision-making process.

This survey, covering Asia-Pacific, the Middle East, Europe and the US, shows that, three years on from the 2008 credit crunch, there is general support among investors and CFOs for global standards. Most importantly, as countries have gained experience in using global accounting standards, their support has tended to increase. We hope that the SEC considers this carefully while making its decision as US adoption of IFRS would, in our view, give a tremendous boost to the cause of financial reporting, and more importantly, the world economy. It should also be noted that there is strong support for the advent of global standards in areas such as non-financial reporting, corporate governance and integrated reporting.

Our survey also finds evidence that access to capital for companies is increased and its cost reduced by IFRS adoption – more important than ever in these difficult economic times where maintaining international trade must be key for policymakers. It is important, too, we believe, that governments resist, as far as is possible, the temptation to 'carve out' certain standards or include other issues locally which may be important in their countries but which, when aggregated, threaten the integrity of the global standards regime.

ACCA, as a global body for professional accountants with members in 170 countries, has long been a passionate supporter of global standards and was the first major body to qualify accountants in IFRS. We have also supported efforts by bodies such as the International Accounting and Assurance Board (IAASB) and the Global Reporting Initiative (GRI) in their respective efforts to establish global standards for auditing and non-financial reports. We believe common sets of reporting standards help to raise the confidence of investors around the world in the information they are using to make decisions. But we are also strong believers in evidence-based policy, which is why we commission independent research on key issues of public policy.

I am also pleased to note that ACCA will launch this report on the occasion of the 28th session of UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) which will be held at the Palais des Nations in Geneva from 12 to 14 October. UNCTAD has been tireless in its efforts to enhance the capacity and ability of the global accountancy profession to help bring nations into the world economy. A key part of its mission is to promote globally sustainable economies. ACCA supports this goal and believes that global standards are central to that aim.

ACCA would like to thank the research agencies Longitude Research and Research Now who prepared the survey material. We hope you will find it an informative read. ACCA stands ready to engage with policymakers around the world on the issues contained in this report.

October 2011

# About ACCA

ACCA, the Global Body for Professional Accountants, is a long-standing supporter of global standards. Our 147,000 members welcome the G20's call for one set of accounting standards and support the International Accounting Standards Board in its efforts to create International Financial Reporting Standards (IFRS). We also support standards-setting efforts in the area of non-financial reports by groups such as the Global Reporting Initiative (GRI), as well as the work of the International Integrated Reporting Committee (IIRC) in its drive to create standards that unite financial and non-financial information.

# About this research

As part of our support for standards, ACCA routinely conducts research to assess the attitudes of stakeholders relating to the process of standards creation and implementation. This report, which canvasses views of both CFOs and investors globally to gauge their appetite and views on global standards for reporting, builds on an initial study conducted in 2008 with CFO Research Services. It aims to provide a more detailed assessment of how global standards such as IFRS and its emerging non-financial counterparts are shaping the attitudes and actions of financial professionals.

To do so, we drew on two key inputs:

- During August 2011, we surveyed a total of 163 senior executives. Respondents were divided between CFO-level executives from a wide range of industries that issue financial reports, as well as the investors that analyse such reports, with a roughly 2:3 split between the two sets of stakeholders. Geographically, the survey was divided roughly equally between the US, Europe and Middle East, and Asia.
- To complement this, ACCA also conducted in-depth interviews with nine executives and investors from a range of companies and institutions globally to gain individual evidence to enrich the analysis of the survey findings.

Our thanks are due to all survey respondents, as well as the following interviewees for their time and insights (listed alphabetically by organisation):

- Anders Pehrsson, vice president and group controller, Atlas Copco, Sweden
- Anne Simpson, portfolio manager and head of corporate governance, CalPERS, US
- James Hance, senior advisor, Carlyle Group, US
- Russell Picot, chief accounting officer, HSBC, UK
- Bill Hartnett, sustainability manager, LG Super, Australia
- Barbara Scherer, chief financial officer, Plantronics, US
- James Singh, chief financial officer, Nestlé, Switzerland
- Ravi Nedungadi, president and chief financial officer, UB Group, India
- Anonymous, chief financial officer, private equity fund, Hong Kong.

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# Executive summary

**Over the last two decades, the rapid advance of globalisation has helped to facilitate international business and eliminate barriers to capital flows. From the perspective of accounting, auditing and non-financial reporting, standards have struggled to keep pace with the development of commerce, preventing both investors and issuers from better aligning their interests. Lack of comparable performance measures force investors to base increasingly global asset allocation decisions on incomplete information. From a CFO perspective, increasingly global competition for capital leads corporate boards to focus more on near-term earnings and less on ensuring the long-term sustainability of their businesses.**

Fortunately, significant progress is being made in addressing the standards gap. The implementation of International Financial Reporting Standards (IFRS) in many of the world's major markets is providing a foundation that enables investors to make accurate cross-border comparisons of companies. It also allows companies to better communicate their strategy to shareholders. As the US regulator, the Securities and Exchange Commission (SEC) stands poised to make key decisions about IFRS implementation in the US, this report seeks to gauge the value that both investors and CFOs see in IFRS and other global standards, such as those for auditing and non-financial reporting.

Some of its key findings include:

**Increasing familiarity with global standards in financial reporting continues to break down resistance to their implementation**. Respondents to this survey – comprising financial professionals from investors and issuers and in countries where IFRS is in varying stages of implementation – appear broadly positive about the benefits. More than 40% say IFRS has improved access to capital, while around a quarter say adoption has lowered capital costs. Far fewer believe the implementation of IFRS is not worth the cost.

**The effect of the financial crisis has been to improve perceptions of global standards among investors and issuers**. Over half (52%) of respondents say they view global standards, such as IFRS, more positively in the wake of the economic difficulty of the past few years. Far more respondents now believe the benefits of IFRS outweigh its costs, compared with those who do not. Indeed, investors such as CalPERS, the California Public Employees Retirement System, says the costs of not investing in high quality accounting and auditing standards, in terms of potential investment portfolio losses, are far greater than any conversion costs. Furthermore, some 60% of respondents see standards as a facilitator of more consistent regulation.

**Investors favour global auditing standards**. Overall, more investors than CFOs see benefits from a switch to International Standards of Auditing (ISAs) in terms of quality and cost. Just over one-quarter (27%) of CFOs see some benefit from these, compared with nearly twice as many (49%) who see little or no benefit. Among investors, 44% are positive on this, compared with 30% who do not.

**Rising demands from investors and customers for greater disclosure is fuelling an appetite for global standards in non-financial reporting**. Far more CFOs (37%) believe standards will improve non-financial reports, such as those on corporate social responsibility and environmental risk, than those who think otherwise (9%). Nearly half (46%) believe that issuing non-financial reports to global benchmarks will improve their reputations among stakeholders and consumers. There is general agreement that companies' risk management would benefit from this, too.

**Executives believe that global standards or benchmarks in corporate governance would encourage more 'long-term' thinking**. Fully 70% of both groups believe that standards for corporate governance would encourage more 'long-term' thinking in the boardroom. As this research highlights, global standards are improving communication in ways that enable investors and issuers to align their interests, their objectives and their goals.

**Although a more distant aspiration, there is a clear recognition of the potential benefits of integrated reporting**. More than two-thirds of those surveyed say there is much to be gained – both in terms of better decision-making (39%) and a more accurate picture of overall performance (28%) – from the presentation of financial, governance and sustainability information in an integrated format. Interest in such reporting has increased markedly in the past decade, but with widely diverging approaches. And issuers in particular remain wary of the tendency to ever-greater disclosure and its effect on the value of the information it contains.

# The continued evolution of global standards

**All standards benefit from a network effect: as more people adopt a given approach, the value spreads and multiplies. In recent years, as a rising number of jurisdictions have adopted IFRS, a global standard for financial reporting, its benefits to both issuers and investors have increased. As this report highlights, IFRS is enabling stakeholders to better manage and assess corporate performance, while facilitating lower costs for capital and boosting cross-border business activity. As demand grows for improved disclosure from companies, it raisesawareness of the value in applying global standards to other measures of corporate performance. This extends to the form and content of the non-financial reports that provide a more complete picture of corporate strategy and business sustainability.**

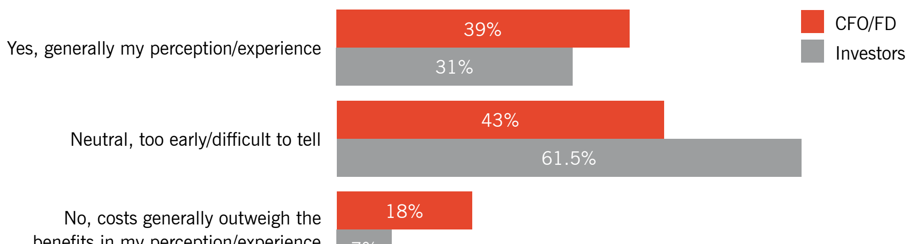
When ACCA surveyed CFOs on global standards in 2008[1], a positive view was observed, with a majority of respondents saying that the benefits of standards such as IFRS outweighed the costs associated with converting from reporting to national standards. This view holds today, both among CFOs issuing reports and among the investors assessing them. Inevitably, financial turmoil in global markets has shaped this prevailing outlook to some degree. About two-thirds of investors and more than half of CFOs polled for this report say they view IFRS more positively in the wake of the crisis. Though both groups remain pragmatic about the effects of IFRS, with views more nuanced in the wake of grappling with actual implementation, many say they expect to derive advantages from reporting to the IFRS regime.

The spread of IFRS has gathered pace since our 2008 survey. From 2012, companies in Malaysia and Singapore will be compelled to report to IFRS, adding to an already long list of countries, from across the European Union, to Hong Kong, Australia, Canada, the Gulf states, Russia, Pakistan, Turkey and South Africa. Meanwhile, an ongoing review by the International Accounting Standards Board (IASB) looks likely to create the provisions for investment accounting that are a key source of resistance among asset managers to conversion from US GAAP. "One major effect of the global financial crisis is that the US moved to a basis of consolidation which is much closer to IFRS," says Russell Picot, chief accounting officer at HSBC in London. "US accounting practice previously permitted more structures to be held off balance sheet than IFRS and during the crisis this caused users some confusion. European banks were on one basis and US banks were on a fundamentally different basis."

Indeed, it is in the US, where the SEC stands ready to deliver a deadline for compliance with IFRS by year-end, that scepticism over the value of IFRS is highest, according to this survey. This is likely due to uncertainty both over the parameters of implementation and about the current strength of the US economy. "The financial crisis has had a dramatic impact," says James Hance, a senior advisor at the Carlyle Group, a US-based investment firm, and the former chief financial officer of Bank of America. "Companies and financial firms are focused internally, on running their businesses. Things are very tight, and IFRS is going to require significant investment – for example, in systems conversions and updates for which companies have not yet fully budgeted in financial projections."

But others give short shrift to the cost argument. "We're all very good at

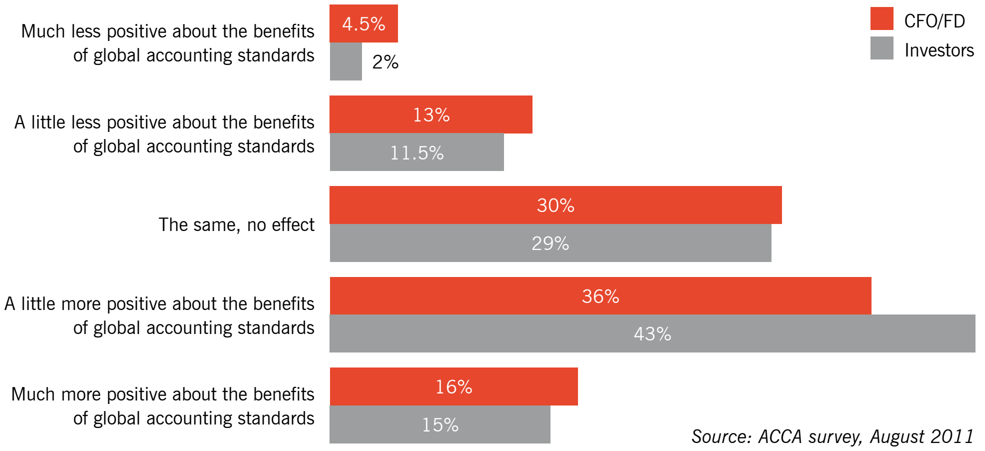
**DOES COMPLIANCE WITH IFRS OUTWEIGH COSTS?**




*Source: ACCA survey, August 2011*

1 *A climate of convergence: Global standards and the modern enterprise*, ACCA and CFO Research Services, December 2008

**WHAT EFFECT HAS THE GLOBAL FINANCIAL CRISIS HAD ON YOUR VIEWS ABOUT IFRS?**




*Source: ACCA survey, August 2011*

being able to identify costs and put a price tag on conversion," says Anne Simpson, head of corporate governance at CalPERS, the California Public Employees Retirement System. "But should we be visited by horrors like the financial crisis and realize we've not invested sufficiently in quality accounting and auditing, then the cost runs to billions. Billions were wiped from the CalPERS portfolio. Those are the sort of numbers we should be looking at when people complain about costs."

## A WIDER PUSH FOR GLOBAL STANDARDS

The push for global standards outside the realm of IFRS is gathering steam. Stakeholder groups such as the Global Reporting Initiative (GRI) are leading the drive for standards in non-financial reporting, while the International Integrated Reporting Committee (IIRC) is pressing national governments to integrate sustainability information in corporate reports. In 2011, South Africa's regulator became the first to require listed companies to produce integrated reports of financial and non-financial information on an annual basis. As shareholder concerns gain ground with elected representatives, demands on report preparers for increased transparency and accountability promise only to grow. Hence the calls for standards on sustainability reports from interviewees, who say they are needed to enhance veracity. "I think it's probably useful for shareholders that there be standards in the assurance, " says HSBC's Mr Picot. "But an additional step to attempt to standardise the content of the report as opposed to standardising the assurance process would be unhelpful."

As comments like these attest, the journey towards greater implementation of global standards is not without bumps and hurdles. Financial professionals indicate that limiting exceptions, such as those that continue to arise as IFRS is transposed into national laws, will be essential in winning acceptance for emerging benchmarks. "Establishing one set of standards for accounts across the globe and compelling everyone to use them is a noble objective," says Ravi Nedungadi, president and chief financial officer of the UB Group, an Indian brewer and beverage firm. "In reality, what will happen is that there will be some carve-outs that will be country-specific and require multiple sets of accounts. With the tremendous lack of clarity in knowing what the standards are going to be, we've held back on reporting to IFRS until that clarity arrives."

The pace of conversion also is a focus, with some stakeholders pushing the sort of sweeping change that others see as operationally disruptive. "We're going to need time after the standards are published to change our systems and train people to account in the new way," says Barbara Scherer, CFO at Plantronics, a US maker of hands-free communications devices.

Equally, many are cautious about the trend toward ever-increasing levels of disclosure and its dilutive effect on information. "Standards underpinning financial reporting are a lot stronger than those for other types of reports, so having them integrated would lend some gravitas," says Bill Hartnett, head of sustainability at Australia's Local Government Super, a retirement savings fund for local government employees. "But when disclosure for disclosure's sake takes over, what ends up getting reported is immaterial and immaterial issues get the focus. What's needed is to get to an end-game that's about addressing and understanding risks."

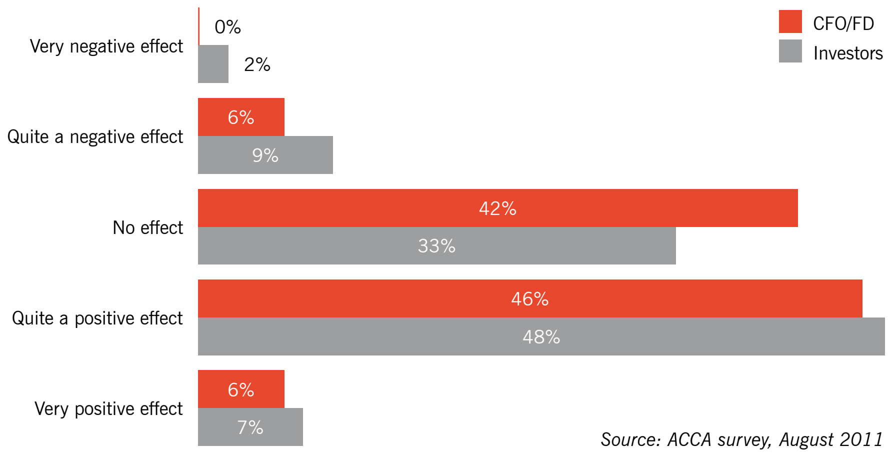
**If corporate boards and investors are to better align their interests, the first step is developing a common language through which they can more precisely articulate their goals and objectives. Governing bodies and institutions such as the G20, UNCTAD and the European Union have identified IFRS as a tool for performance measurement that permits the sort of plain speaking – the allocation of investment capital and rising share prices – that corporate boards keenly comprehend. This research suggests that the implementation of IFRS in many of the world's major markets has improved the dialogue among stakeholders, leading to greater efficiencies and, in turn, sparking demand for global standards in non-financial reports.**

Overall, pragmatism reigns among financial professionals when it comes to offering a fuller assessment. Among respondents who have yet to adopt IFRS, the majority (84%) say the experience of their subsidiaries that are compelled to report to the standard has had no bearing on their opinion. Nevertheless, standards in financial reporting are helping to facilitate cross-border business activities. More than half (53%) of executives polled say they are positive about the effects of IFRS in this area. Around one-third say it has had no effect, while less than 10% see IFRS as having a negative effect on cross-border business activity. "Where the benefit comes is in using a single standard for performance measurement both inside and outside the company," says James Singh, CFO at Nestlé, a Swiss foods giant. "From a regulatory standpoint, it's an efficient way of preparing accounts."

Given the effects of operational efficiencies on bottom-line results, both issuers and investors view reporting to global standards as a source of material benefit. This confirms research from other sources, which have highlighted the positive effects of IFRS adoption on aspects such as market liquidity, trading costs, and cross-border formation and capital flows[2]. Some 42% of respondents see IFRS as easing access to capital, with a similar percentage yet to form an opinion. Nearly half of the investors included in the survey population are positive about the effects of standards on investment capital flows, while only a small minority hold a negative view. More than twice as many investors (46%) see these falling barriers as driving down the cost of raising capital than do those who see it rising (18%). Among issuers, the views are fairly balanced, although slightly more lean towards the positive. "Already for non-US borrowers, and for the bigger US-based multinationals, IFRS has helped," says Mr Hance. "I'm on five boards [including Ford Motor, Morgan Stanley and Sprint/Nextel] and everyone is studying it."

Geographically, respondents from the Middle East, where IFRS is increasingly the norm, are the most positive about the effects both on access to capital and capital costs. Meanwhile, respondents from the US and Asia, where national standards currently remain the dominant guidelines, harbour less sanguine views. "Most of the countries in Asia are coming around, but it makes everything

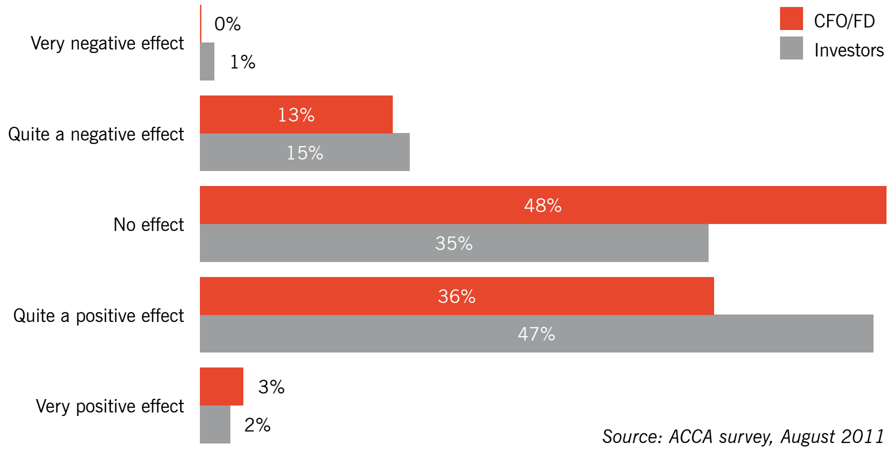
**WHAT EFFECTS HAS THE SPREAD OF IFRS HAD ON FACILITATING CROSS BORDER ACTIVITIES?**




*Source: ACCA survey, August 2011*

2 *The economic effects of IFRS adoption*, Barry Jay Epstein, CPA Journal, March 2009

WHAT EFFECTS HAD THE SPREAD OF IFRS HAD ON ALLOWING EASIER ACCESS TO CAPITAL?




*Source: ACCA survey, August 2011*

more complicated and difficult when [national standards-setters] want to do their own little tweaks," says the chief financial officer of a Hong Kong-based private equity fund, who asked to remain anonymous. "It doesn't have a wide-ranging impact [on our business], but it is better if reporting is in IFRS for greater comparability. When evaluating an investment in something other than IFRS, we do have to ask whether there is something that would change if reports were issued in IFRS."

## CARVE-OUTS AND OTHER CHALLENGES

Differences between national legislation and global standards – so-called carve-outs – are the dialects that prevent IFRS from facilitating [a more] meaningful dialogue between investors and corporate boards. They range from subtle differences to wholesale exemptions, such as the European Commission's allowing an exception to hedge accounting in IAS39.

Alongside purely economic considerations, these nuances and exceptions appear to underpin the belief among those respondents who feel that it is too early to tell whether the benefits of IFRS implementation outweigh the costs of conversion. "IFRS isn't tough enough in certain areas; this is the problem with carve-outs," says CalPERS' Ms Simpson. "We don't have much sympathy for those that say disclosure is too much like hard work. That's actually the lifeblood of the market. If you've got your internal processes in order and your data collection in a robust form [then this should be straightforward]. We are not asking for publication three times a year and at the expense of courier delivery. This is all information that management should have and it should be available at the touch of a button."

For CFOs, keeping up with local variances within differing jurisdictions that implement IFRS is the sort of operational hurdle that acts as a disincentive to conversion by adding costs and complexity as local specialists for differing national rules must either be hired or be retained as consultants. "In terms of subsidiaries, some of ours are quite large and material to the group results. So as a multinational company, we can't afford to have different accounting standards in different locations," notes Mr Singh.

Problems of interpretation extend to audits, where a divergence of opinion among issuers and investors is clear. Some two-thirds of respondents must comply with International Standards for Auditing (ISA). Among these firms, half of CFOs polled see little value in doing so, while just one in four see benefit. This compares to 43% of the investors who believe ISA offers "some" or "a lot" of benefits. Overall, the preference appears to be for audit committees to oversee both the preparation and audit of financial reports. Some 60% of both issuers and investors see audit committees as conduits of consistency. Just one in five sees such committees as encouraging "a box-ticking approach".

"I'm not sure how much the move from national to international standards changes the ability to catch errors or issues earlier in the process," says the Hong Kong-based CFO, a former auditor. "If audits are taking place at a national level on financials reported in multiple GAAP standards, the greater the chance of slippage. Audits have gotten smarter, but dealing with major multinationals is a whole different thing than with companies in far-flung jurisdictions where controls and systems might not be as robust and one has to go through reams of papers versus plugging into a computer system."

This negative sentiment appears to stem from two sources. One is simply that the verification process of financial accounts is often contentious. Another relates to the issues of definition and interpretation of principles under accounting standards like IFRS that are not predominantly rules-based. "It's less about the quality and more about the process," say Anders Pehrsson, vice president and group controller at Atlas Copco, a Swedish industrial group with world-leading positions in compressors, construction and mining equipment, power tools and assembly systems. "If the information that is generated by the audits has changed, it's because the process has changed. If people want to cheat, they will find a way to cheat. And that's down to the company culture."

Encouragingly, respondents indicate that addressing these interpretive differences is made easier by the implementation of global standards. Six in ten executives say that IFRS supports clear and consistent international regulation. One-fifth of investors and issuers see IFRS implementation as “very positive” for regulatory development, while most others say the effect is “quite positive”.

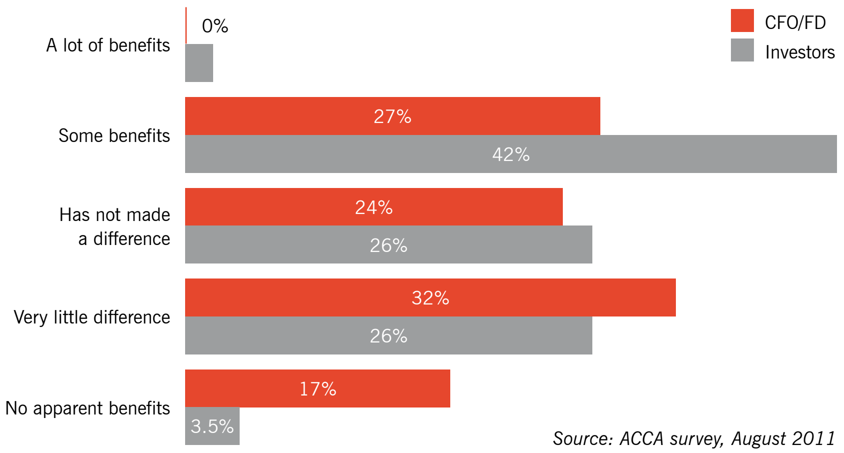
## INCREASING STAKEHOLDER ENGAGEMENT

Executives see resistance to change as a primary challenge to deeper penetration of global standards. They add that addressingstakeholder concerns before standards are in place is a key to winning acceptance. However, many view the interest groups that have developed over the last decade to support the creation of global standards in both financial and non-financial reporting as adding to the demand for ever-increasing levels of disclosure. And just as questions arise over the value of these layers of detail for investors, there is concern among stakeholders that pragmatic, practical and sensible standards will succumb in the push for greater transparency.

“As much as we work together and there are forums that allow that to happen, I would like to see more honest involvement by the parties,” says Mr Singh, who chairs the finance committee of the European Roundtable of Industrialists, a lobby group. “Too often, consultation papers are written and comments are solicited and then we hear nothing until we’re told the proposals are now being implemented. It shows the process is not working well, which is a great frustration.”

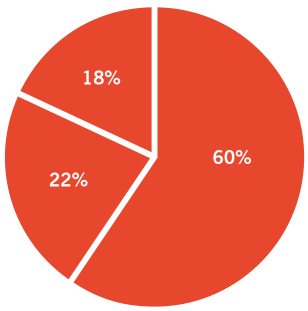
Ms Simpson at CalPERS, which acts as a staunch advocate of the rights of what it calls “shareowners” (see case study), adds that a full airing is vital if investor concerns are to be addressed. “There’s a saying In East Africa: ‘If you want to go fast, go alone. If you want to go far, go together.’ And that’s a watchword for this whole process.”

### HOW DO YOU FEEL THE SWITCH TO ISA HAS AFFECTED YOUR COMPANY’S AUDIT IN TERMS OF QUALITY AND THE COST OF THE PROCESS?



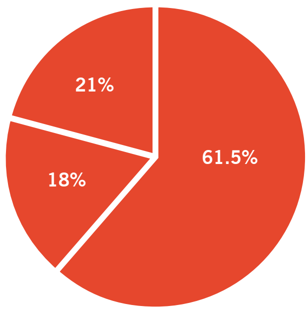

*Source: ACCA survey, August 2011*

### WHAT WOULD BE THE IMPACT OF THE ROLE OF AUDIT COMMITTEES IN OVERSEEING FINANCIAL REPORTING AND AUDITING IF GLOBAL STANDARDS WERE TO BE DEVELOPED?




**CFOs/FDs**

| | |
|---|---|
| 18% | Would have little effect |
| 22% | Would be detrimental as would lead to box ticking approach |
| 60% | Would benefit by ensuring consistency of approach |




**INVESTORS**

| | |
|---|---|
| 21% | Would have little effect |
| 18% | Would be detrimental as would lead to box ticking approach |
| 61.5% | Would benefit by ensuring consistency of approach |

*Source: ACCA survey, August 2011*

## CASE STUDY
## IFRS at HSBC – reporting with one voice

The 2005 adoption of IFRS at HSBC, the global bank, has helped the firm realise a range of benefits. A major one is simply in being able to get a single view of the group's overall performance. "One of the great benefits has been a single set of rules which underpin a single set of numbers by which the group is run," says Russell Picot, the bank's London-based chief accounting officer. "It's done away with the Tower of Babel of different reporting and accounting languages we had before."

Along with being an early adopter, HSBC has been particularly aggressive in its IFRS uptake. Rather than opt out on more stringent accounting for derivatives – an exception to IFRS39 – HSBC has adhered to the fuller standard. As a result, it contends it was better able to manage its risk during the market turmoil engendered by the global financial crisis.

The bank also routinely issues comments on IFRS proposals. For example, it is calling for "a more effective balance of clear principles with a minimum of detailed rules" in the ongoing harmonisation of IFRS with US GAAP. Indeed, it is in the US where HSBC expects to realise what it officials call "a significant cost reduction" from operational streamlining that unified standards enable. "In the US, they run the operation with IFRS numbers," says Mr Picot. "But they have an unusual technical issue in that they present their business segments using IFRS numbers and then reconcile to US GAAP."

Overall, HSBC's implementation highlights the inherent benefits, both operationally and to bottom-line results, that make reporting to a common standard a key factor in limiting systemic risk in global capital markets. "Transparency is probably the most important thing a company should concentrate on to help the market understands its business and reduce its cost of capital." says Mr Picot. "But the banking industry has bigger issues at present particularly with the changes to the regulatory landscape, both potential and actual. It is preoccupied with the reaction of governments to the financial crisis and where regulators are going with Basel III [standards for capital adequacy]. These factors currently dominate the agenda right now."

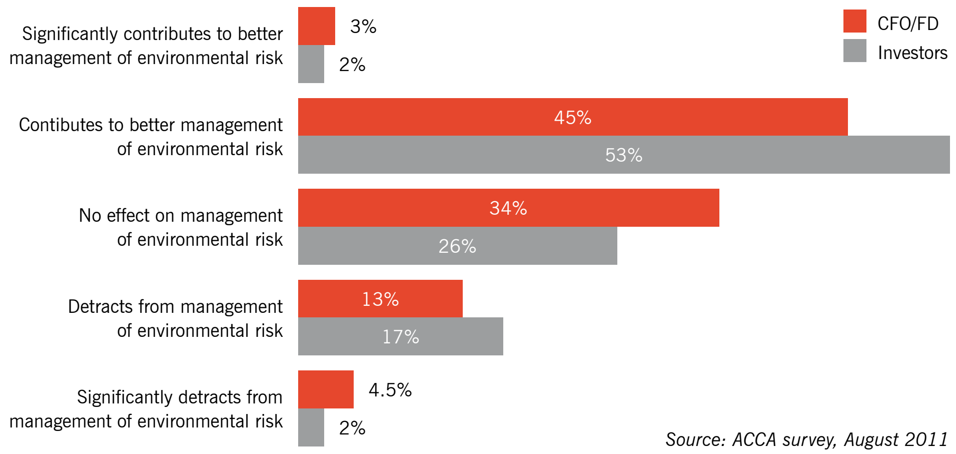
# A more integrated future: Global standards for non-financial reporting

**As more companies publish their financial reports to global standards, they also face growing pressure to deliver more than just a view of bottom-line results. Driven by an array of concerns, demands are growing for more detailed insights about the social and environmental impact of corporate activity. One recent example comes from the Corporate Sustainability Reporting Coalition (of which ACCA is a member), which launched a push for greater transparency and accountability from corporate boards at the UN's General Assembly in September 2011. The lobby group comprises investors managing assets of US$1.6 trillion.**

In general, this survey highlights that both issuers and investors are broadly in favour of moves to establish codified measures of corporate performance in both financial and non-financial areas. This is perhaps the strongest indicator of the power of global standards to reshape the way corporate boards and investors communicate. Already, there's been a surge in non-financial reporting over the past decade. But interviewees say clear global standards are required to make this information genuinely useful. "The area of disclosure is a key starting point, but risk management is the end-game," says Mr Hartnett. "Because when you have focus on disclosure, it can inform standards that aren't optimal. If a company discloses something that isn't particularly nice, it's up to the investor to have the skill set to identify it and then to go back to the company and ask the questions that enable them to get comfortable with that risk."

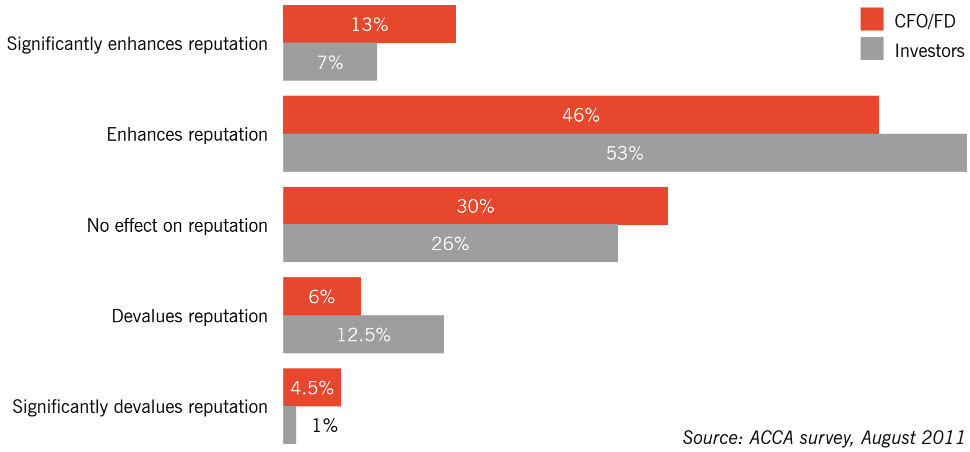
Overall, a majority of survey respondents see global standards in non-financial reporting as a tool that could contribute to the better management of environmental risk. Indeed, simply establishing benchmarks in non-financial areas – a task the GRI has set itself – appears high on the agenda given that companies launching such initiatives are doing so in a standards vacuum. "There is a need for a set of standards because investors and members of society are reading your reports and relying on them to make a decision," says Mr Singh. "Sometimes it's an investment decision, sometimes it's a decision about purchasing a product. Therefore, if it becomes too loose and not structured in some kind of framework that gives the reader an objective view of the impact of your business activity, it can have a material effect on the balance sheet."

**WHAT DO YOU THINK THE DEVELOPMENT OF GLOBAL STANDARDS IN THIS AREA WOULD HAVE ON THE WAY THAT COMPANIES MANAGE THEIR ENVIRONMENTAL RISK?**




*Source: ACCA survey, August 2011*

**WHAT EFFECT DO YOU THINK THE DEVELOPMENT OF GLOBAL STANDARDS IN THIS AREA OF SUSTAINABILITY WOULD HAVE ON COMPANIES' REPUTATION?**




*Source: ACCA survey, August 2011*

Nevertheless, the perceived effect of standards on sustainability reporting is now proving a source of support. Six in ten executives say standards adoption would bolster their company's reputation, twice the number of those who think it would merely be neutral. Of course, this does not suggest an absence of challenges. For example, executives overall are divided on whether such standards would impact the degree of engagement between investors and corporate boards. "I do think there is a growing commitment to sustainability across the board, and demonstrating that commitment is increasingly important to customers and business partners," says Mr Hance. "But financial reporting has become so esoteric in so many ways, that investors are struggling even to stay current on how to evaluate it. So this threatens to make sustainability just another metric."

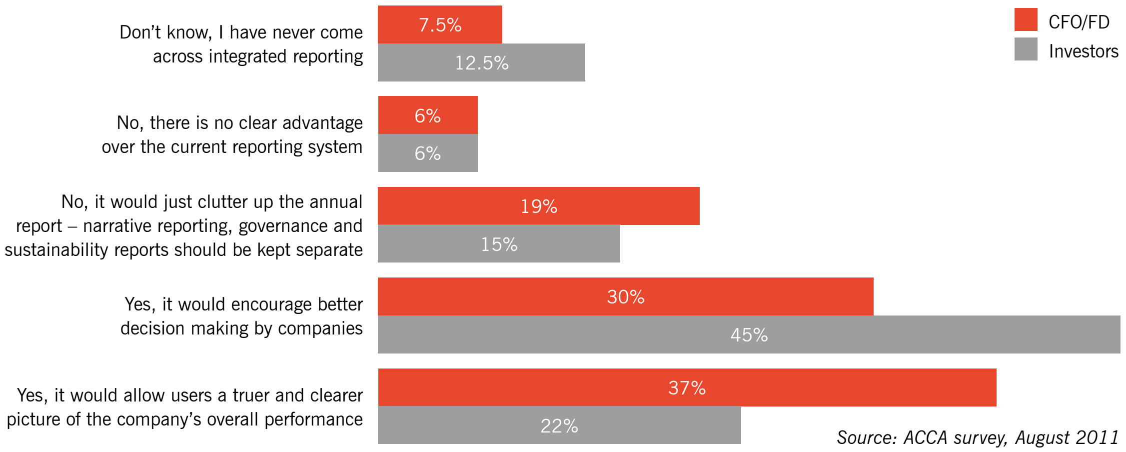
## THE TRICKY PATH TOWARDS INTEGRATED REPORTING

Such uncertainty also is apparent in the views that issuers and investors hold about integrated reporting. Overall, two-thirds of respondents see the combined presentation of financial and sustainability information as helping investors and consumers. Yet investors are twice as likely to believe that this would encourage better decision-making, while CFOs similarly are convinced that integrated reporting would provide a clearer picture of overall performance. "Investors and the analyst community are more inclined and influenced on a cash-flow basis, whereas companies like ourselves are influenced by cash flow and by performance measurement that sooner or later end up in the balance sheet," says Mr Singh. "We have to have the right kind of focus to drive sustainable performance in the business. If you're only cash-flow focused, you are more short-term oriented."

Overall, nearly three-quarter of respondents believe that integrated reporting would lead to longer-term thinking by corporate boards. Perhaps unsurprisingly, respondents from the US, where global standards for financial reporting have yet to be adopted, express the most pessimism about integrated reporting's ability to alter decision-making time-horizons. Nevertheless, even there, a majority (62%) still see this as being beneficial. Such views are more strongly held elsewhere. More than 70% of respondents from Europe hold a similar view, as do more than eight in ten across the Middle East and Asia.

But while a global standard is seen as beneficial, challenges to formulation and implementation remain. "Standards underpinning financial reporting are a lot stronger than those for other types of reports, so having them integrated into one report would lend some gravitas," says Mr Hartnett. "One criticism of the

### DO YOU THINK THAT INTEGRATED REPORTS WOULD HELP INVESTORS AND COMPANIES BY PRESENTING INFORMATION JOINTLY?




*Source: ACCA survey, August 2011*

GRI is that it's not investment-focused enough. And that is the product of a young industry that needs to build the skill sets that follow from reporting and are necessary to make sense of it."

Another issue is the wide-ranging differences in sustainability concerns between industries, which makes standard setting fundamentally difficult. "It might be useful to agree common reporting requirements by sector," says HSBC's Mr Picot. "But to require all industries to produce identical non-financial reporting would create a misleading impression of comparability." There is also concern about flexibility and the value of information delivered by reporting to universal standards. Nestlé works with standards-setters to develop better frameworks here. "The goal is to ensure the integrity of organisational processes so that information can be evaluated on a consistent basis," says Mr Singh.

As such, a key element in winning acceptance for global standards in non-financial reporting will be in ensuring that they provide usable information. Getting this right will be crucial for enabling the integration of financial and non-financial information in ways that allow stakeholders to align their goals and objectives. A particular challenge lies in finding a central course amidst numerous competing voices advocating change. "We do not really need multiple initiatives here or they will drown each other out," says Mr Hartnett.

## CASE STUDY
## Sustainable productivity at Atlas Copco

As an early adopter of GRI guidelines on sustainability, Swedish heavy equipment manufacturer Atlas Copco is among the companies using emerging global standards in corporate governance to address shareholder concerns. The company, which reports to IFRS from 400 centres worldwide, has published reports on sustainability annually since 2001, later adding information on corporate governance and integrating those with the financial information published in its annual report.

"The sustainability report is written with stakeholders in mind, but sometimes it's more difficult for investors," says Anders Pehrsson, the company's Stockholm-based vice president and group controller. "The GRI Index, which was chosen when we were looking for a structured approach to report on the company's performance in non-financial areas, is helpful for investors looking for reported indicators."

The genesis for more coordinated communication on these metrics came in response to demands from investors and others for more detailed reports on the group's activities. As a listed Swedish company, Atlas Copco's financial reporting to IFRS coupled with its benchmarking of the sustainability measures it reports voluntarily against the GRI index offers its investors a more complete picture how the firm is pursuing its stated goal of 'sustainable productivity'. Overall, Mr Pehrsson says the costs associated with keeping stakeholders apprised of related sustainability initiatives are worth the feedback it generates.

"It used to be a case of being chased by investors to report on activities outside of financial reports," says Mr Pehrsson. "But apart from the manufacturing processes, some of those issues are just not important to our business. In order to communicate this more clearly, we've taken the initiative and are issuing reports instead of being chased by investors for information."

# Conclusion: Ensuring global standards deliver on their promise

**Keeping ‘carve-outs’ and national add-ons to a minimum is vital if global standards are to deliver their full potential for stakeholders and for society. A major step forward in the spread of global accounting standards will be the SEC’s decision on how and when to adopt IFRS in the US. In general, however, this should offer an opportunity for standards-setters in the US to influence the development of IFRS in ways that strengthen its effectiveness. “The whole thing is to get the SEC and FASB (Financial Accounting Standards Board) to the table because you can’t solve these problems if you are on the outside,” says CalPERS’ Ms Simpson.**

Among the open questions over US implementation are whether listed companies should be compelled to issue reports to IFRS and how quickly such requirements should be put in place. Another area of concern, in terms of potential carve-outs, is with financial instruments. “The FASB and IASB have offered different solutions, we believe the FASB has a tougher stance on this [although the FASB is in re-deliberations]. Additionally, we know from the financial crisis there was a lot of risk, much of it off-balance sheet, not accounted for, with not enough disclosure and we suffered horribly for it,” says Ms Simpson. “Financial instruments are so important that [they] ought to be handled in a much tougher manner than in IFRS. We don’t want a carve-out for the US because the US does it better. But Europe should not follow a standard that is less rigorous.”

Certainty is another key concern for business, which reaches beyond the US. “People envision a set of Indian accounting standards that in some places will be similar to IFRS and in some places may differ,” says Mr Nedungadi at UB Group. “Our concerns go beyond that in that Indian authorities have said flatly that they will not be bound by IFRS.” Beyond just IFRS, there is also stakeholder wariness about greater levels of disclosure in general, such as for sustainability information. Some question the value of non-financial information that is not specific to a particular business or industry.

“Companies will inevitably differ when determining their sustainability issues and deciding how material they are,” says HSBC’s Mr Picot. “If they are forced into a rigid reporting framework, it could result in excessive amounts of detail having to be collected which are not relevant to the assessment of the business.”

In this light, the SEC’s decision could either help to slow down or speed up future standard-setting decisions in non-financial reporting. Ensuring standards are in place that best serve stakeholder interests is paramount. But finding common ground for so many diverse stakeholders is hard. “It’s been difficult to engage users because they’re not paid to evaluate standards,” says HSBC’s Mr Picot. “The IASB has been conscious, as has FASB, of the need to get investors and people who make their living analysing companies around the table in order to hear their views directly. There is still some way to go, but progress has been made.”

Investors and issuers interviewed for this report agree that achieving an optimum environment for standards requires a more concerted effort by stakeholders to articulate their desires and interest. CalPERS gives one example of best practice here (see case study). But given the value that many executives see in global standards as a means for better aligning the interests of corporate boards and investors, there appears ample motivation for a deeper engagement.

## CASE STUDY
## CalPERS – setting the standard for investor engagement

With assets of US$220bn under management, the California Public Employees Retirement System (CalPERS) vigorously defines the term 'activist shareholder'. Among its avowed principles is the belief that "operating, financial, and governance information about companies must be readily transparent to permit accurate market comparisons."

These words translate into wide-ranging actions. For example, it goes to great lengths in pursuit of what it calls "accountable corporate governance": maintaining guidelines for issuers and regularly commenting in public forums and consultation papers, testifying before governmental committees, and talking to the press. It works with accounting and auditing standards-setters in various forms, ranging from board-level seats to participation in technical advisory sessions. Furthermore, its representatives routinely engage with regulators and elected leaders in the 47 markets in which it invests. "Our core principles are areas we regard as absolutely fundamental to safety and soundness in global capital markets. Convergence to a high global standard such as IFRS is one of these," says Anne Simpson, CalPERS' senior portfolio manager and head of corporate governance. "We're not on the fence; we see this as a critically important issue."

In addition to transparency in company information, CalPERS' core principles address a broad spectrum of corporate governance concerns. These range from director appointment and accountability, to one-share/one-vote and proxy voting, as well as defining best practices and ensuring a long-term strategic vision. In formulating these guidelines, it draws on the corporate governance policies of a wide range of bodies, such as the Council of Institutional Investors, the UN Principles for Responsible Investment and the International Corporate Governance Network, among others. Overall, Ms Simpson sees its guidelines as a foundation for accountability among stakeholders and encourages others to adopt them. "We see high quality accounting and auditing as a market fundamental, something that has a systemic benefit," she says.

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