A Climate of Convergence:

Asia Pacific's Road to Global Reporting Standards

A research report prepared by CFO Research Services in collaboration with ACCA

CFO research services

ACCA

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Contents

Introduction

It is always a challenge to talk about Asia Pacific because it is a region of many cultures and beliefs, each with its own language and ways of looking at the world. Geography is one of the few things that the various countries and jurisdictions share—and lately, the progress of their companies towards global standards.

This study conducted by CFO Research Services for ACCA, the global body for professional accountants, polled 131 finance executives in Asia Pacific excluding India[1] as part of a survey of 792 senior executives around the world. Among other objectives, the aim is to elicit value judgments about International Financial Reporting Standards (IFRS) and emerging global standards for reporting environmental, social and other sustainability practices.

The findings paint a picture of Asia-Pacific companies as somewhat ahead of the rest of the world on the road to global standards. 76 percent say that global financial standards have been or will be good for their company, higher than the 68 percent of respondents who says the same in India, Europe and the U.S. Only 3 percent of the Asia-Pacific respondents do not intend to adopt IFRS, compared with 9 percent in the other regions surveyed.

The same trend is evident with regards to sustainability reporting. Forty six percent of respondents in Asia Pacific have adopted or plan to adopt the voluntary ISO 14000 standards on environmental management, compared with 37 percent in the other markets surveyed. Forty one percent have adopted or plan to adopt the Sustainability Reporting Guidelines developed by the Global Reporting Initiative (GRI), also voluntary, a level far higher than the 26 percent who say the same in India, Europe and the U.S.

The findings paint a picture of Asia-Pacific companies as somewhat ahead of the rest of the world on the road to global standards.

That said, Asia Pacific's road to global standards is still long and challenging. Some quarters in Europe, which adopted IFRS in 2005, blame the standards for supposedly being one of the causes of the current global credit crunch. There are fears that new standards being drafted, among them those for pension accounting, may bring more harm than good, and that IFRS convergence with U.S. GAAP may result in the dilution of the principles-based approach.

On sustainability reporting, 44% of the executives surveyed in Asia Pacific actually say they are unable to comment on the chances of their company adopting GRI guidelines and ISO 14000 standards. It is our hope that this report will help bring clarity to the issues and contribute in some way to the debate about the way forward in the Asia Pacific.

[1] We conducted separate research on India. Please see *A Climate of Convergence: India's Road to Global Reporting Standards*, CFO Research Services, October 2008

> About this report

CFO Research Services, a unit of CFO Publishing and part of The Economist Group, launched a research project in collaboration with ACCA in June 2008 on the impact of global standards on the modern enterprise.

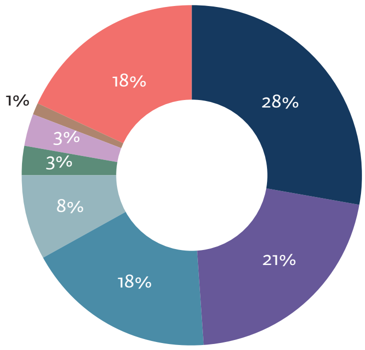
CFO Research Services jointly developed the parameters for this study with ACCA, which funded the research and publication of the report. We would like to acknowledge the ACCA team for their input and support. Cesar Bacani, Research Editor at CFO Asia Research Services, developed the hypotheses and survey, analyzed the results, conducted the interview program, and wrote the report. Sue Toomey and Amy Lau of CFO Asia managed the project.

We would also like to thank the business executives who took the time to share their views with us.

Demographics

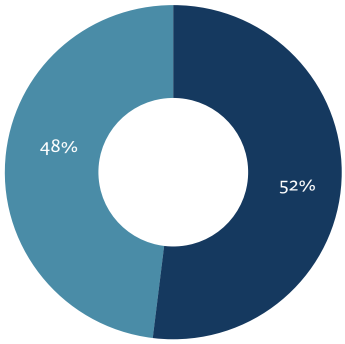
A total of 131 respondents in Asia Pacific qualified for this research because they are CFOs, CEOs, financial controllers, directors of finance, chief accountants and other senior executives.

Respondents hold positions with the following titles:



Base: 131 respondents

. . . work in listed and unlisted companies:



Base: 121 respondents

. . . and represent a cross-section of company types:

Multinational	45%
Regional company	16%
National company	16%
Medium-sized enterprise	16%
Small-sized enterprise	8%

Base: 127 respondents. Figures do not add to 100% because of rounding.

. . . with the following in annual revenues:

Less than US$10 million	23%
US$10 million to US$50 million	25%
US$51 million to US$100 million	10%
US$101 million to US$500 million	18%
US$501 million to US$1 billion	8%
Over US$1 billion	16%

Base: 121 respondents

Executive Summary

This survey of 131 chief financial officers, chief executive officers, financial controllers, directors of finance, chief accountants, and other senior executives in Asia Pacific (excluding India) finds significant adoption of IFRS in full or in part, but not of GRI Sustainability Reporting Guidelines and ISO 14000 environmental standards. The notable findings of this research include the following:

- **Seventy six percent of Asia-Pacific respondents say that global financial standards have brought or will bring more benefits than drawbacks to their company.** The executives surveyed appear to have reached this conclusion based on a relatively strong grounding in IFRS—64 percent say they have reasonable knowledge of these standards, with 22 percent even saying they have in-depth knowledge. This is perhaps not surprising given that Australia and New Zealand have adopted national standards that they describe as IFRS-equivalents, while Hong Kong and Singapore have standards which are almost identical to IFRS, China's new accounting standards are modeled after IFRS, Japan plans to eliminate major differences between Japanese GAAP and IFRS by 2011, and Korea intends to adopt IFRS as Korean Financial Reporting Standards.

- **Eighty three percent say their company has fully or partly adopted global financial standards, while another 11 percent say their company plans to do so in the next three years.** Forty five percent of companies have fully adopted IFRS or IFRS-equivalents as required by their jurisdiction's regulators, while 38 percent have voluntarily adopted international standards in full or in part—IFRS or IFRS-equivalents are typically permitted but not required for unlisted companies. The substantial proportion of voluntary adopters may be due in part to the funding that many Asia-Pacific companies have or want to get from foreign players such as private-equity firms and international banks, which usually want to see IFRS-compliant financial statements.

- **The top three concerns of Asia-Pacific respondents with regards to global financial standards are lack of IFRS expertise by company staff, financial cost of full compliance and potential volatility in financial performance because of standards such as mark-to-marketing.** Interestingly, Asia Pacific is the only region where lack of staff expertise tops the list of concerns—it is a middling issue in Europe and the U.S., where the main worry is the financial cost of full compliance. One key reason for the focus on human resources may be the acute shortage of finance talent in China and the impact of this on the wider region.

The executives surveyed in Asia Pacific, like those in India, do not really focus on mark-to-market valuation, unlike respondents in Europe and the U.S., where it is a more prominent issue.

- **The Asia-Pacific respondents want global financial standard-setters to address a number of important issues.** Asked to identify the most critical, the executives surveyed pointed to managing the transition from rules-based to principles-based approach (57 percent), taking into account the unique circumstances and cultural sensitivities of individual countries (53 percent), and financial-statement presentation (50 percent). The executives surveyed in Asia Pacific, like those in India, do not really focus on mark-to-market valuation, unlike respondents in Europe and the U.S., where it is a more prominent issue.

- **On sustainability reporting, 92 percent of the Asia-Pacific respondents believe that a single set of global standards will bring benefits, but 44 percent have not heard of GRI's sustainability reporting guidelines, while another 41 percent say they have little knowledge of them.** Awareness of ISO 14000 standards is slightly higher—only 23 percent say they have not heard of them, with 51 percent admitting their knowledge is sketchy. As a result, 44 percent say they are unable to comment on the stage of adoption in their company of the GRI guidelines; 40 percent say the same of ISO 14000 standards.

Despite their lack of knowledge, 46 percent say their company has adopted or plans to adopt ISO 14000 standards, compared with just 37 percent of respondents in India, Europe and the U.S. who say the same. Forty one percent have adopted or plan to adopt the GRI guidelines, far more than the 26 percent who say the same in the other jurisdictions surveyed.

Will the adoption rates increase further if executives in Asia Pacific were to gain deeper knowledge of GRI and ISO 14000? Our global study suggests they might.[2] In that survey of 792 executives worldwide, the rate of actual and planned adoption among those who say they have reasonable or in-depth knowledge of GRI guidelines is a remarkably high 77 percent, while 85 percent of those who know ISO 14000 have adopted or plan to adopt these standards. It seems that to know GRI and ISO is to accept their standards. If so, a solid and extensive information and education program may be the key to increasing adoption of GRI and ISO in Asia Pacific.

[2] See *A Climate of Convergence: Global Standards and the Modern Enterprise*, CFO Research Services, October 2008.

Part 1 — International Financial Reporting Standards

The body that issues international financial reporting standards is the London-based International Accounting Standards Board (IASB), an independent non-government organization appointed and overseen by the 22 trustees of the IASC Foundation. The trustees appoint 14 board members, who currently come from nine countries and a variety of functional backgrounds. IASB cooperates with national accounting standard-setters around the world to ensure convergence in accounting standards.[3]

Japan, India, and Korea have started the convergence process with IFRS, setting a 2011 target.

Asia Pacific's various jurisdictions approach IFRS in different ways *(Exhibit 1)*. Some countries like Australia have adopted IFRS with only minor changes to accommodate existing legislation, while others like China have made exceptions and changes such as allowing at-cost valuation for certain assets instead of fair value. Japan, India, and Korea have started the convergence process with IFRS, setting a 2011 target. Still others do not permit the use of IFRS at all.

> Exhibit 1: Adoption of IFRS in Asia-Pacific jurisdictions

Australia	The Australian Accounting Standards Board has replaced Australian GAAP with AASB Accounting Standards, with minor changes to accommodate existing legislation. Listed and some large unlisted companies are required to report using the Australian equivalents to IFRS; other unlisted companies are permitted, not required, to use them.
Bangladesh	IFRS not permitted.
Bhutan	IFRS not permitted.
Brunei	IFRS permitted, not required.
Cambodia	IFRS permitted, not required.
China	In effect since 2007, China's new Accounting Standards for Business Enterprises are principles-based like IFRS and follow many of their recognition and measurement principles, but other standards are different, such as allowing the use of the cost model for certain assets instead of fair value.
Hong Kong	Adopted in 2005, Hong Kong Financial Reporting Standards (HKFRSs) are identical to IFRS.
India	The Institute of Chartered Accountants of India plans to adopt IFRS as Indian Financial Reporting Standards in 2011.
Indonesia	IFRS not permitted.
Japan	Major differences between Japanese GAAP and IFRS will be eliminated by June 30, 2011, in a convergence process agreed upon by the Accounting Standards Board of Japan and the IASB.
Korea	The Korea Accounting Standards Board plans to adopt IFRS as Korean Financial Reporting Standard in 2011, with early adoption permitted starting next year.
Malaysia	The Malaysian Financial Reporting Foundation and Malaysian Accounting Standards Board plan to bring Malaysian GAAP into full convergence with IFRS by 2012.
New Zealand	In 2007, New Zealand's Financial Reporting Standards Board issued New Zealand IFRS, with some amendments to accommodate existing legislation. Listed and some large unlisted companies are required to report using NZ IFRS; other unlisted companies are permitted, not required, to use them.
Pakistan	IFRS not permitted.
Philippines	Philippine Financial Reporting Standards (PFRSs) are almost identical to IFRS but with modifications in relation to the pension, foreign exchange, and leases standards, for example.
Singapore	Singapore Financial Reporting Standards (SFRSs) are almost identical to IFRS. There are only minor modifications.
Taiwan	The Accounting Research and Development Foundation has issued a Project Plan Concerning the Convergence with IFRS, which has resulted in the revision of the share-based standard last year.
Thailand	Existing Thai Accounting Standards to conform with IFRS.

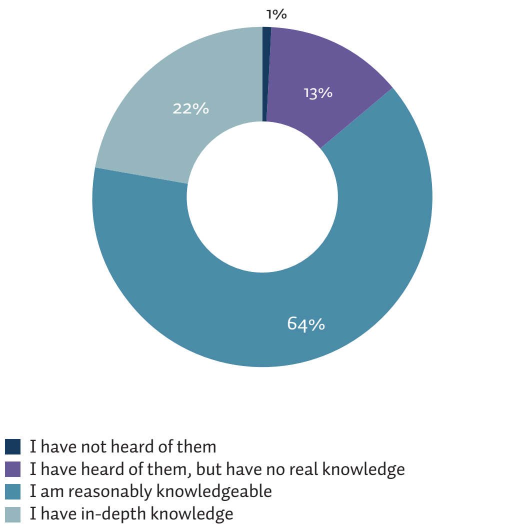
Sources: Deloitte and CFO Asia Research Services

[3] Website of the International Accounting Standards Board at www.iasb.org

Awareness and expectations

The executives surveyed in Asia Pacific seem well grounded in IFRS. Sixty four percent say they are reasonably knowledgeable about these global financial standards, with a further 22 percent even declaring they have in-depth knowledge *(Exhibit 2)*.

> Exhibit 2: Knowledge of International Financial Reporting Standards

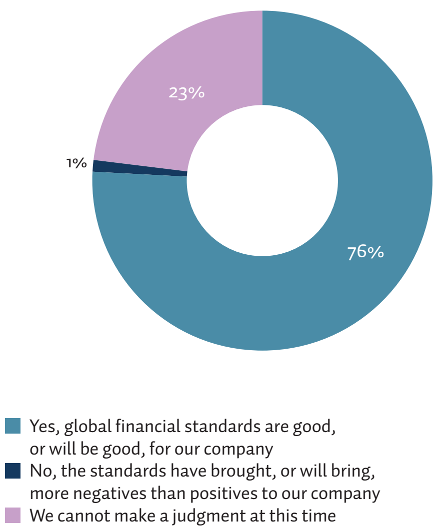


Base: 130 respondents

In asking respondents to make a value judgment on the impact of IFRS on their company, we tried to avoid ambiguity by phrasing the question thus: "Do you believe that, on balance, adopting global financial standards is good, or will be good, for your company (weighing the gains, drawbacks and opportunity risks)?"

Asia-Pacific respondents say that adopting global financial standards has been or will be good for their company. Seventy six percent say so *(Exhibit 3)*. This compares with 68 percent of respondents in India, Europe, and the U.S. who judge that global financial standards have been good for their company (for those that have already adopted IFRS or IFRS-equivalents) or expected them to be good for their company (for those that have yet to adopt them).

> Exhibit 3: Will global financial standards be good for your company?



Base: 128 respondents

Only 1 percent of Asia-Pacific respondents say global financial standards will be negative for their company, compared with 6 percent in India, Europe, and the U.S.

Only 1 percent of Asia-Pacific respondents say global financial standards will be negative for their company, compared with 6 percent in India, Europe, and the U.S. The proportion of Asia-Pacific executives who say they are unable to comment (23 percent) is only slightly lower than the proportion of fence-sitters in the rest of the world (26 percent).

Adoption of IFRS

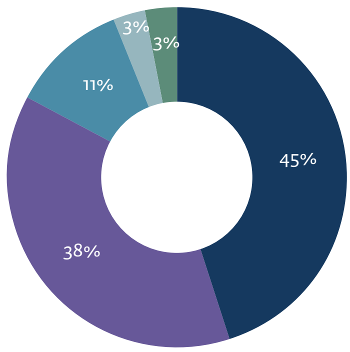
Asked about their company's adoption of IFRS, 45 percent of respondents say their company has adopted these standards as required in their jurisdiction, while 38 percent say their company has done so voluntarily *(Exhibit 4)*. Another 11 percent plan to adopt IFRS in the next three years.

The relatively high mandatory adoption rates is not surprising, given that IFRS has been adopted in full or in large part as national standards in Australia, China, Hong Kong, New Zealand, Philippines, and Singapore.

The relatively high mandatory adoption rates is not surprising, given that IFRS has been adopted in full or in large part as national standards in Australia, China, Hong Kong, New Zealand, Philippines, and Singapore. On the other hand, the substantial rate of voluntary adoption may be explained by the openness among Asia-Pacific companies to foreign investment—private-equity firms and mutual funds typically want to see IFRS-compliant financial statements.

Those respondents who say their company plans to adopt IFRS in the next three years may be anticipating their adoption as national standards by 2011.

> Exhibit 4: What is the stage of adoption of IFRS in your company?



- We have fully adopted IFRS as mandated in our jurisdiction
- We have fully/partly adopted IFRS voluntarily
- We plan to adopt IFRS in the next three years
- We do not intend to adopt IFRS
- Unable to comment

Base: 129 respondents

The relatively high adoption rate in Asia Pacific should be put in context. When respondents say their company has adopted IFRS, they actually refer to IFRS as adopted by their accounting standards board, and there can be variations since boards can modify or leave out some standards altogether.

"Different jurisdictions have different approaches," observes Jeanette Wong, CFO of DBS Bank, which is Southeast Asia's largest lender. "I don't think you can ever get one common standard [for valuations] everywhere. Even if you do, companies and accounting firms may interpret it differently. But if we are 95 percent there, it will make things easier because you then need to address just the marginal differences."[4]

The aspiration, says IASB chairman Sir David Tweedie, is 100 percent convergence, no matter the nomenclature. "If you have IASB standards and some that are almost there, but not quite, that will cause massive confusion," he argues. "People outside will become suspicious and ask what you are hiding."

Key concerns

The Asia-Pacific respondents were asked to rank the drawbacks of adopting IFRS on a scale of 1 (most significant) to 6 (least significant). Three issues emerged as key concerns: the lack of staff expertise and experience to handle the changeover to the new standards, the financial cost of full compliance, and volatility in financial performance because of standards like mark-to-market valuation (*Exhibit 5*).

It is interesting to compare the ranking with that in other regions. While staff expertise is ranked the most significant in Asia Pacific, it is lower down in India, Europe, and the U.S. The key driver may be China, which was already experiencing a shortage of finance talent even before demand for them spiked last year, when the new Accounting Standards for Business Enterprises came into effect.

[4] Interview with Jeanette Wong, CFO of DBS Bank, August 1, 2008.

> **Exhibit 5: Drawbacks of adopting global financial standards**

	Ave. rank, Asia Pacific	Ave. rank, India	Ave. rank, Europe	Ave. rank, U.S.
Our staff do not have the expertise and experience to handle the changeover to the new standards	3.0	3.4	3.3	3.2
The financial cost of full compliance is a heavy burden on our company	3.1	3.0	2.9	2.8
Mark-to-market valuation, treatment of goodwill, and other issues unfairly introduce volatility to our financial performance	3.2	2.9	3.2	3.4
The changeover to the new standards seriously disrupts financial management	3.5	3.9	3.5	3.1
The standards do not sufficiently take into account the unique circumstances of small and medium-sized enterprises (SMEs)	3.7	3.4	3.7	4.1
It is difficult to find consultants with the expertise and experience to help us transition to the new standards	4.2	3.8	4.2	4.2

Drawbacks ranked on a scale of 1 (most significant) to 6 (least significant)

The worry in Asia Pacific that the financial cost of full compliance will impose a heavy burden on the company is shared by the rest of the world.

The worry in Asia Pacific that the financial cost of full compliance will impose a heavy burden on the company is shared by the rest of the world. But the cost of switching in the first year does not appear to be too onerous. Sixty eight percent of Asia-Pacific respondents who said their company had adopted IFRS estimate that they spent the equivalent of less than 0.5 percent of annual revenue. That's what the majority of the executives surveyed in Europe estimate as well (*Exhibit 6*).

Companies should consider not just the cost but also the benefits, argues the IASB's Sir David. "Certainly there's a one-off cost to switching systems, but then come the benefits in two major forms," he says. "One is the reduction in the cost of capital because people understand you and you can access the world market now, whereas in the past you couldn't. The other advantage is huge savings from combining IT systems, combined training, [and] consolidated accounts that are easy to produce."

> **Exhibit 6: How much did your company spend in the first year of switching to IFRS?**

	Asia-Pacific respondents	Europe respondents
Less than 0.5% of annual revenue	68%	65%
0.5% to 1% of annual revenue	15%	22%
1.1% to 3% of annual revenue	8%	11%
3.1% to 5% of annual revenue	5%	1%
More than 5% of annual revenue	3%	1%

Base: 95 Asia-Pacific respondents, 113 Europe respondents

> **Exhibit 7: Critical issues the global standard-setters must address**

The transition from a rules-based approach to a principles-based approach	57%
Taking into account the unique circumstances and culture sensitivities of individual countries	53%
Financial-statement presentation, including forward-looking information in the management discussion and analysis section	50%
Taking into account unique circumstances and needs of SMEs	35%
Mark-to-market valuation	32%
Consolidation of off-balance-sheet entities	22%
Revenue recognition	14%
Expensing of stock options	5%
Accounting for pensions	5%
Last in, first out (LIFO) inventory accounting	3%
Accounting for leasehold property	2%

Base: 129 respondents, top three issues

Volatility in financial performance because of standards like mark-to-market valuation is another worry. But most Asia-Pacific jurisdictions are not likely to experience so much of this because exotic derivatives and other financial instruments are not available in their markets, and their accounting standards boards have modified some international standards that tend to cause such volatility. In China, for example, mark-to-market is optional for some asset classes, including investment property, and not required for property, plant, and equipment used in everyday operations.[5]

Indeed, when asked what they think are the top three critical issues global standard-setters should address, only 32 percent of Asia Pacific respondents singled out mark-to-market valuation (Exhibit 7). The majority pointed to the transition to a principles-based approach (57 percent), taking into account the unique circumstances of individual countries (53 percent), and financial-statement presentation (50 percent).

> Profex Inc.: China's New Standards

Before joining Shanghai dermatology company Profex last year, Ng Wailun was group vice president of finance at Alibaba, China's largest business-to-business Internet enterprise, controller for greater China at PepsiCo Beverages, and CFO of AstraZeneca Pharmaceuticals and cosmetics giant Revlon, also in greater China. Ng became vice president and CFO of Profex just as China adopted its new Accounting Standards for Business Enterprises (ASBEs).

The change actually worked to Profex's advantage. "Although we are not listed, we have been reporting using IFRS because we have institutional investors and they don't understand [the old] PRC GAAP," says Ng. "But we also do our accounting under PRC GAAP for tax filing and other regulatory purposes." With ASBEs, Chinese standards have moved closer to IFRS, although Ng says the version previous to ASBEs were already close to international standards.

But there are still differences. Among nine key ones, according to accounting firm Deloitte, are ASBE 4 and ASBE 6 allowing only the cost model for measurement of fixed assets and intangible assets, whereas IAS 16 allows a revaluation model; ASBEs allowing the use of the cost model on land-use rights on property held as investment, whereas IAS 40 allows only fair value; ASBE 2 allowing only the equity method of accounting for jointly controlled entities whereas IAS 31 also allows proportionate consolidation; and ASBE 8 prohibiting the reversal of all impairment losses, whereas IAS 36 prohibits only the reversal of the impairment of goodwill.

Still, Ng thinks ASBEs are a step in the right direction. "It's better if everyone uses a similar set of accounting standards," he says. "If I'm a potential investor, an investment banker, or a PE fund, and I'm looking into invest into this company, I want to make sure that I am looking at a set of accounts that is prepared in the same consistent way that I understand, especially when I'm buying stakes in emerging companies and emerging economies."

The 32 China respondents in this study general concur with this. Asked whether they believe that adopting global financial standards is good for their company, after weighing the gains, drawbacks and opportunity risks, 74 percent say yes. No one thinks global financial standards are not good for their company, but 26 percent say they cannot make a judgement at this time.

Sir David Tweedie, chairman of the International Accounting Standards Board, says the board is working closely with the Chinese standard-setters. He notes, for example, that IASB has amended standards dealing with recognition of related parties to accommodate the difficulties in China (and in Japan) in identifying related parties. China's ASBEs do not automatically regard state-controlled entities as related parties simply because they are state-controlled. "China has unique problem in the sense that it is switching from a state-controlled economy to a more private sector economy, and has difficulties in getting the markets operating," Sir David says.

China's listed companies (and unlisted ones that are encouraged, but not required, to adopt ASBEs) have started reporting their 2007 results under ASBEs. The expectations are that the financial statements will become more transparent and comparable to other the reports of other companies outside China, but that may take some time. It's not just a question of standards, but of the people doing the reporting as well. At Profex, for example, Ng says he found many areas where the accounting was not exactly up to IFRS.

"The standards are supposed to be about the same, but it's the CFO who makes the difference because they're the ones who'll have to say, 'Hey, this is material, you can't do it this way,'" says Ng. The external auditors have a role to play, but while the bigger firms can be quite stringent, the smaller companies can be persuaded to be flexible, says Ng. He would also like to see the regulators become more transparent. "It's still a very paternalistic approach, with the government deciding what's best for everyone," he says. China has taken a good, solid first step with ASBEs, but its journey to global standards has only just begun.

[5] China's New Accounting Standards, Deloitte, August 2006

Part 2 — Global Sustainability Reporting

A not-for-profit foundation incorporated in the Netherlands, the Global Reporting Initiative (GRI) is the body at the forefront of global sustainability reporting, an activity that companies may or may not adopt. GRI is backed by the UN Foundation, U.S. Environmental Protection Agency, and many other government and private-sector supporters. In 2006, GRI released the third version of its Sustainability Reporting Guidelines, which set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance.[6]

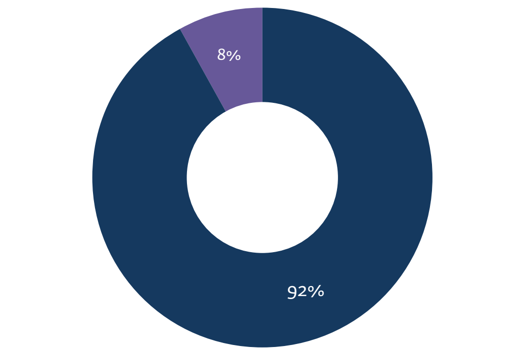
The ISO 14000 family of standards was developed by the International Organization for Standardization for voluntary adoption by companies worldwide. This set of standards addresses environmental management by businesses and other organizations, with the aim of minimizing harmful effects on the environment caused by their activities, and achieving continual improvement of their environmental performance.[7] GRI refers its users to ISO 14000 standards in the section of its guidelines that addresses environmental efficiency issues.

Awareness and adoption

Asked whether they believe a single set of standards for global sustainability reporting brings or will bring benefits to their company, 92 percent of Asia-Pacific respondents say yes (*Exhibit 8*).

However, most Asia-Pacific respondents do not know much about GRI or ISO 14000. A big majority—85 percent—say they either have not heard of GRI's Sustainability Reporting Guidelines (44 percent) or have no real knowledge of them (41 percent). Awareness of the ISO 14000 standards is higher, with only 23 percent saying they have not heard of them, although 51 percent admit to having only sketchy knowledge.

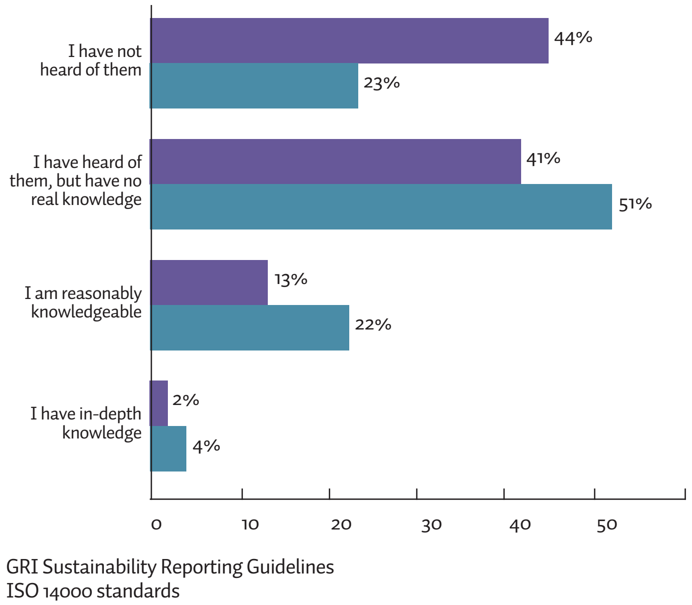
> Exhibit 8: Are there benefits from global standards for sustainability reporting?



Base: 131 respondents

Some 22 percent of Asia-Pacific respondents say they have reasonable knowledge of ISO 14000 standards, with another 4 percent claiming in-depth knowledge. About 13 percent say they have reasonable knowledge of the GRI guidelines, with another 2 percent saying they know them in-depth (*Exhibit 9*).

> Exhibit 9: Knowledge of guidelines and standards for sustainability reporting



Base: 130 respondents

[6] Website of the Global Reporting Initiative at www.globalreporting.org
[7] Website of the International Organization for Standardization at www.iso.org

Twenty nine percent of respondents in Asia Pacific say their company has adopted ISO 14000 standards, higher than the 21 percent in the other jurisdictions surveyed.

Given their sketchy knowledge, it is not surprising that 44 percent of Asia-Pacific executives are unable to comment on their company's adoption of these sustainability standards *(Exhibit 10)*. But 19 percent say their company has fully or partly adopted the GRI guidelines, which is higher than the 11 percent in India, Europe, and U.S. who say the same. Twenty nine percent of respondents in Asia Pacific say their company has adopted ISO 14000 standards, higher than the 21 percent in the other jurisdictions surveyed.

Adding those who say their company plans to adopt the GRI guidelines in the next three years, the actual and planned adoption rate in Asia Pacific comes to a substantial 41 percent, which is much higher than the adoption rate of 26 percent in the other jurisdictions surveyed. The actual and planned adoption rate for ISO standards in Asia Pacific is 46 percent, also higher than 37 percent in India, Europe, and the U.S.

The power of knowledge

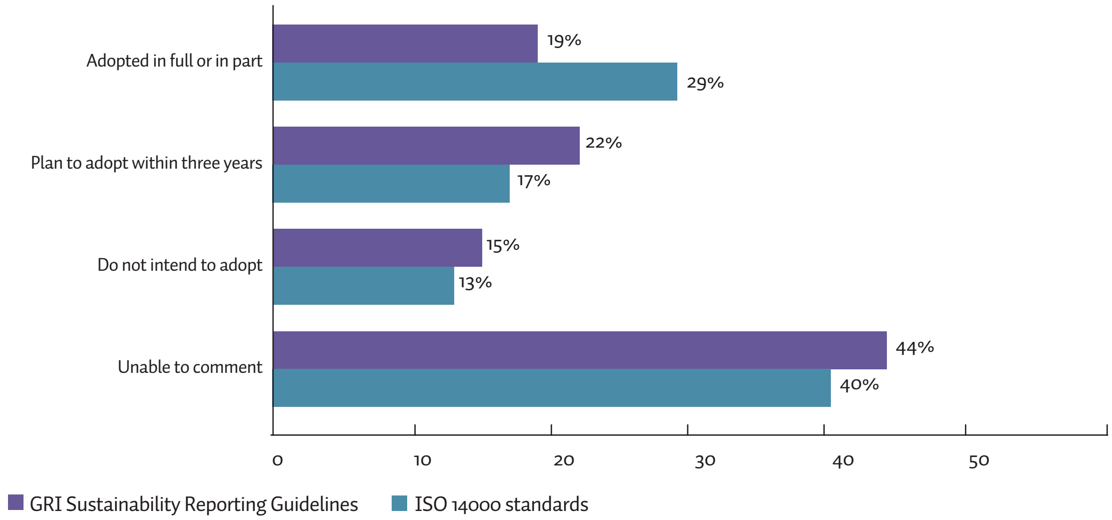
Forty four percent of Asia-Pacific respondents say they are unable to comment on GRI guidelines and 40 percent for ISO standards, evidently because they have not heard of either or have only sketchy knowledge. Is their company likely to adopt these standards if the executives get to know them at reasonable depth?

The Asia-Pacific sample is too small to draw conclusions about whether reasonable or in-depth knowledge of GRI and ISO 14000 will lead to greater adoption. However, the findings of our global survey (which includes the respondents in Asia Pacific) suggest that this may be the case.

Exhibit 11 compares adoption rates among the total respondents and the smaller segment comprising executives who say they have reasonable or in-depth knowledge of GRI and ISO 14000. Only 32 percent of total respondents say they have adopted or plan to adopt GRI guidelines, with 41 percent saying the same of ISO 14000 standards.

However, among executives who know GRI guidelines, the actual and planned adoption rate soars to 77 percent, while the actual and planned adoption rate among those who know ISO 14000 is even higher at 85 percent.

> Exhibit 10: What is the stage of adoption of these standards in your company?



Base: 130 respondents

> Exhibit 11: What is the stage of adoption of these standards in your company?

	Full or partial adoption/planned adoption		No plan to adopt		Unable to comment	
	Total respondents	Those with reasonable/ in-depth knowledge	Total respondents	Those with reasonable/ in-depth knowledge	Total respondents	Those with reasonable/ in-depth knowledge
GRI Sustainability Reporting Guidelines	32%	77%	18%	10%	50%	13%
ISO 14000 standards	41%	85%	16%	6%	43%	9%

Base: 661 total respondents; 89 who know GRI; 151 who know ISO 14000

It may be that if the standard-setters succeed in raising awareness and fostering deeper knowledge of GRI and ISO in Asia Pacific, they may be able to significantly increase adoption as well.

Sustainability and share price

Adoption will almost certainly quicken if it can be proved that there is a direct link between sustainability reporting and share-price performance. "That's the Holy Grail," speculates Ernst Ligteringen, GRI's chief executive.[8] He knows of several studies, but he doesn't think any of them is "absolutely conclusive." One study (not the one by CRD Analytics referenced below) found that the share price of companies that issue sustainability reports are more stable than those that do not. "Some others show a positive correlation, but that is questioned by others," Ligteringen says.

A recently developed Global Sustainability Index (GSI) developed by U.S. consultancy CRD Analytics suggests that large public companies that are deemed to have sustainability practices in place tend to do better than their peer group as a whole in the stock market. CRD assessed companies in the Fortune Global 500 by turning more than 100 environmental and social key performance indicators in GRI's Sustainability Reporting Guidelines and other KPIs CRD developed into ratios relative to key financial metrics. The top 50 scorers became the constituents of the GSI 50.

CRD then calculated the return on the GSI 50, the S&P 500, and the Nasdaq Global Index over a one-year period and through the second quarter of 2008. "We definitely found a strong link between sustainability and stock performance," says Michael Muyot, CRD's president. "The GSI 50 had an 11.55 percent alpha over the S&P 500 and 25.52 percent over the Nasdaq Global Index for the first-year return. Through the second quarter, the GSI 50 outperformed the S&P 500 by 16.89 percent and the Nasdaq Global Index by 27.14 percent."[9]

Muyot says more work needs to be done. "We have to see what the next two years will reveal," he notes. It may be that the GSI 50's commodities, mining, and alternative energy constituents, which have been investor darlings as plays on the commodities boom, are what is driving the outperformance, even as the S&P's banking and financial constituents, which are bearing the brunt of investors' ire because of their sub-prime mortgages exposure, are bringing down the returns on the S&P 500 and S&P 100.

To address this issue, Muyot says CRD will run more in-depth fundamental and technical analysis. "The weightings can also be adjusted, depending on the purpose of the reporting," he adds. "What we know is that we can go back further to look at overall stock performance, but not in conjunction with sustainability performance data, since most companies didn't report [in the past]. The one sector we can probably look at is energy, since [energy companies] have been forced to address the environmental impact of large oil spills, pollution and safety issues that came to the public awareness."

[8] Interview with Ernst Ligteringen, chief executive of Global Reporting Initiative, July 30, 2008.
[9] E-mail interview with Michael Muyot, president of CRD Analytics, August 12 and August 19, 2008.

CRD plans to continue updating sustainability performance data annually and financial data quarterly as these become available. But Muyot is ready to draw some conclusions from the research already done. From the current 200, the number of companies that measure and quantify will increase to over 1,000 over the next couple of years, he predicts. "Stock performance will always be volatile, but 'sustainable' companies will experience below average volatility and above average ROE," he says.

Muyot also expects the SEC to mandate disclosure of carbon footprints and other environmental risk factors in company 10k filings and annual reports. "The impact of a federal cap and trade [carbon dioxide emissions program] in the U.S. along with comparable regulations in Europe, Asia and South America will push the carbon credit trading industry into the multi-trillion stratosphere," he concludes. "And the leaders in adopting clean and renewable energy options in the technology and energy sectors will really jump off the page."

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> Prudential Asia: Insurance and IFRS

Because it is a business unit of British insurance giant Prudential plc, Prudential Corporation Asia switched over to IFRS in 2005, when the European Union adopted them. Before then, it reported using U.K. GAAP, a set of standards close to GAAPs in former British colonies Hong Kong, Malaysia, and Singapore. Prudential Corporation Asia does business in these three markets and in ten others, including China, India, Japan, and Korea.

So how did the switchover go? "I missed all the excitement because I came into this role in early 2006, but by second-hand information I can tell you that actually it worked very well?" says Sandeep Malik, Prudential Corporation Asia's CFO. Because IFRS is principles-based, it is possible for companies in different jurisdictions not to have exactly identical interpretations of every standard, depending on circumstances that they can justify to their external auditors.

"So in Japan and Taiwan, even though they are much more U.S. GAAP because of the U.S. influence there, we made just a few adjustments and it was fine," Malik recounts. "Equally we have a number of countries [closer to] U.K. GAAP, and again you make a few adjustments, but otherwise you can use most of the stuff and that becomes IFRS. Our various businesses reporting under IFRS may not be exactly identical, but the current phase of IFRS accommodates that, and that made the switchover go much more smoothly."

Not that the accounting has become entirely simplified. Insurance is a heavily regulated industry, and in Asia, that means following divergent local tax and other regulatory rules. "Each country has its idiosyncrasies," says Malik. "Your tax accounting often has to be slightly different than your normal accounting because of the logic or lack thereof in most tax environments, which is true all over the world."

Then there is market-consistent embedded value reporting, a requirement by the European insurance regulator that's coming into effect this year. "We're gearing for it," says Malik. "You basically [value assets] using measurements like the bond yield curves from the market, however irrational or however volatile the market may be at any point in time." The old method caused controversy because insurers could use different assumptions, such as the direction of interest rates, thus affecting the comparability of the reports.

Market-consistent embedded value is analogous to fair-value accounting in IFRS, which Prudential Corporation Asia has to follow as well. "A lot of the fund managers are increasingly using IFRS as a reasonable apple-to-apple proxy comparison [instead of embedded value], so we actually put a lot of emphasis on IFRS," says Malik. Both embedded value and IFRS aim to make financial statements more transparent and hopefully better understood, adds Malik, but the markets are so complicated that "we're not sure how many people will actually fully understand" this part of the reports.

"We are in uncharted territory," says Malik. "It will be interesting to see whether all this, which got started to help analysts and investors, will cause more volatility instead. Will investors be able to understand that there just happens to be volatility in the market and be able to qualitatively adjust? Or will it cause even more volatility because of investors' perceptions about companies, and so end up defeating the very purpose [for which the standards were created]?"

He is hoping for the former, but concedes the second result can happen. "It will take years to find out," Malik concludes. "We will see."

Conclusion

Given the various jurisdictions that comprise the Asia Pacific, it is not surprising to see the differences in approach to global standards, ranging from Australia and New Zealand's near 100-percent IFRS adoption to Singapore's not quite there implementation to China's program of reform and convergence. There are, after all, large variations in economic development, political systems, and business ownership and practices across the region.

However, this defeats the purpose of having global standards, which is to allow investors and other stakeholders to make apple-to-apple comparisons of financial statements prepared by companies wherever they are in the world. Some convergence may be better than no convergence at all, but as the IASB argues, full convergence should continue to be the goal.

But convergence is a two-way process. In developing standards, the IASB has to take into account the unique circumstances and cultural sensitivities of individual countries, as 53 percent of this survey's respondents point out. Sir David says the board knows this, noting that IASB amended its standards on the identification of related parties to accommodate the difficulties in China and Japan to make such an identification.

On the other hand, the board also has to make sure that IFRS does not become riddled with exceptions or end up with overly broad standards or bloated too much by disclosure requirements. Some quarters in Europe worry that the convergence with U.S. GAAP is diluting IFRS's principles-based approach, for example, as accommodations are made with the Americans over some standards.

One good way of making this work is for the standard-setters and the preparer and user communities to stay in constant touch. However, when asked whether they or someone else in their company were ever consulted by the standard-setters, 63 percent of this survey's respondents say no, with 16 percent unsure whether someone in their organization had been consulted. Only 21 percent say they had been consulted.

The IASB does have a feedback mechanism on its website that regularly puts up exposure drafts and discussion papers for comments, but many finance executives in Asia Pacific evidently do not know about it or have not taken the time to contribute. They should. The process of airing honest differences helps clarify the issues at hand and lights the way towards consensus and resolution.

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The IASB should redouble its information and education efforts in Asia Pacific, while the national standard-setters should strive to be more open and listen to the views of their constituencies. The same recommendation applies to the setters of GRI sustainability guidelines and ISO 14000 environmental standards. Our global study found a high rate of actual or planned adoption among executives who claim they have reasonable or in-depth knowledge of GRI's Sustainability Reporting Guidelines and ISO 14000 standards. This suggests that these global standards have reached a level of maturity that makes them attractive to companies—if they only know about them.

It is clear from this research that CFOs and other business executives surveyed in Asia Pacific believe both global financial standards and global sustainability reporting guidelines are, on balance, beneficial to their company. That goodwill could serve as a foundation on which IASB, GRI, and ISO, and their partners and stakeholders, can build to persuade the region's companies to adopt their global standards going forward.

This report forms part of an ambitious multinational survey on global reporting standards carried out by CFO Research Services on behalf of ACCA, the global body for professional accountants.

The project was commissioned by ACCA as part of a wide-ranging examination of the international business community's attitude toward, and acceptance of, global standards. In particular, ACCA wanted to establish to what extent business is seeing tangible benefits from the increasing globalization of standards. In addition to looking at Asia Pacific, CFO Research Services surveyed senior finance executives in Europe, and the U.S.

We wanted to find out the extent to which CFOs believe that global reporting standards are delivering the transparency and consistency they were designed to achieve. Or has that aim been lost over time, with standards being viewed as simply tools for regulatory compliance? As both educator and representative of professional accountants, we have a responsibility to the business community we serve to take a step back and ask: are global standards delivering benefits to shareholders and other users of company reports?

Proponents of global standards will point to the growth of global capital markets and how this has been facilitated by adherence to the same sets of financial reporting and auditing standards. To operate efficiently, these markets need transparency and the confidence that transparency engenders. The ability of companies to list on multiple exchanges has, without doubt, been simplified.

But others will argue that global standards are only about big business. And, perhaps more worryingly, they would say that global standards are driving an increasingly expensive compliance agenda without bringing benefits to business, its shareholders, and wider stakeholders.

To put the debate at its simplest: are global standards producing reports and information which are helping businesses to analyze and manage their performance, and which are helping investors and wider stakeholders to understand and quantify performance for their various needs? This is the fundamental question we were seeking to answer through this research.

Asia results

From ACCA's experiences, the survey results very much echo the positive outlook organizations in Asia Pacific have regarding global standards.

It is revealing that, of all the regions surveyed, Asia Pacific has the highest proportion of CFOs believing that global reporting standards are beneficial for business. The Asian financial crisis of the late 1990s may have much to do with this. During that time, global market participants raised serious concerns about the transparency and credibility of reporting standards in Asia. And while reliable and comparable financial information did not directly cause the financial crisis, its magnitude could have been diminished had there been more reliable accounting and greater disclosure standards to serve as early warning signals to the market. This has undoubtedly contributed to the enthusiasm with which global financial reporting standards have been embraced.

Interestingly, the argument seems to have come full circle in some quarters. The report mentioned that some suggested international financial standards may be one of the causes of the current global credit crisis. However, ACCA would assert that, in addressing the consolidation of off-balance-sheet vehicles and the valuation of financial assets in illiquid markets and appropriate disclosures, regulators are trying to deal with the consequences of the current market situation—not acknowledging that it is part of the underlying causes. ACCA believes firmly that, for all the present difficulties, the increased transparency of IFRS and fair value makes it still the best accounting model available.

In marked contrast to the other regions surveyed, the top concern of Asia-Pacific respondents with regards to global financial standards is lack of IFRS expertise among their employees. "Undoubtedly, the so-called 'talent crunch' in the regional accountancy profession has become a pressing issue," says Tay Kay Luan, ACCA's director in ASEAN and Australasia. One of the biggest drivers of demand has indeed been the economic success of China, with a growing number of finance professionals with IFRS knowledge being lured away from other regional markets (notably Malaysia and Singapore). Kay Luan urges creative action. "There is a clear need to review policies which dictate the free mobility of talent across the region—or risk the flight of capital from currently competitive markets. And, at the same time, we should look afresh at education and development policies to ensure the continued supply of the right talent to the right places."

The picture regarding the usage of CSR reporting standards is, on the face of it, highly encouraging. Ninety-two percent of Asia-Pacific CFOs surveyed believe that a single set of global sustainability standards is, or would be, beneficial to their company. Although this overwhelming approval has not translated into universal action, 41 percent have adopted or plan to adopt the Global Reporting Initiative (GRI) guidelines, with 46 percent adopting or planning to adopt ISO 14000—significantly higher than in the other regions surveyed. This partly reflects the fact that the scale and scope of sustainability reporting is currently far from consistent across Asia Pacific. Australia, Japan, Hong Kong SAR, and South Korea, for example, have taken a leadership role in sustainability reporting. CSR reporting in China and Malaysia has also witnessed a significant rise and it has been gaining traction in the Philippines, Singapore and Thailand. But it is not as yet widely accepted across the entire region. Where greater adoption has been seen, this is largely as a result of the active participation of governments, notably in China, Japan, Malaysia and South Korea.

We strongly concur with the assertion that an extensive awareness and education program is vital to a robust adoption of CSR standards. To this end, ACCA works closely with key partners in the region to foster greater awareness of CSR and the relevant standards. For example, in Singapore, ACCA has produced a Sustainability Reporting Handbook, based on the GRI G3 guidelines, to assist and support companies in the adoption of best practice. In Malaysia, ACCA acts as the secretariat for the Institute of Corporate Responsibility Malaysia, a network of corporate and regulatory institutions committed to the promotion and development of socially responsible business practices. And we have launched sustainability reporting awards with partners in Australia, Hong Kong SAR, Malaysia, New Zealand and Singapore, as a means of rewarding transparency. This survey demonstrates that, despite solid progress, there is clearly more work to do in promoting sustainability reporting to the CFO's agenda.

About ACCA

With 122,000 members and 325,000 students living and working in 170 countries, ACCA is a leading voice in the global accountancy profession. We attract students and develop members who seek internationally recognized finance skills and expertise, and support employers by equipping them with a globally mobile workforce. Not surprisingly therefore, ACCA has been at the forefront of championing global common practice over many years. In 1996, ACCA pioneered the introduction of IFRS into its global examination framework—almost a full decade before they were established as the guiding standards for financial reporting in Australia and across Europe. To enable those trained to national standards to develop international financial reporting expertise, ACCA offers a Certificate and a Diploma in International Financial Reporting. ACCA has also been actively involved in the unfolding debate on corporate social responsibility since 1990. ACCA was represented on the board of the Global Reporting Initiative from its inception until 2007 and an ACCA representative now chairs the GRI's technical advisory committee.

Conclusion

In commissioning and disseminating this report, ACCA hopes to continue to lead in supporting the finance community in Asia Pacific by bringing them informed perspectives from their peers. As the adoption of global standards accelerates, ACCA will remain uniquely positioned to comment on issues and developments to help guide CFOs in successful implementation.

http://www.accaglobal.com/global_standards/