





A Climate of Convergence:

India's Road to Global Reporting Standards



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

A Climate of Convergence: India's Road to Global Reporting Standards is published by CFO Publishing Corp., 60/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

Please direct enquiries to Sue Toomey at +852 2585 3885 or suetoomey@economist.com, or email info@accaglobal.com.

October 2008

Copyright © 2008 CFO Publishing Corp., which is solely responsible for its content. All rights reserved. No part of this report may be reproduced, stored in a retrieval system, or transmitted in any form, by any means, without written permission.

The views and opinions expressed in this report are those of CFO Research Services and the respondents surveyed and do not necessarily represent the views and opinions of ACCA.

Contents

Introduction	2
About this report	3
Executive Summary	4
Part 1 – International Financial Reporting Standards	5
Awareness and expectations	5
Getting ready for IFRS	6
Top concerns	8
Wipro: Ahead of the curve	9
Part 2 – Global Sustainability Reporting	10
Awareness and adoption	10
The power of knowledge	12
Sustainability and share price	12
JK Paper: Great expectations	14
Conclusion	15
ACCA's Perspective	16

Introduction

Asked about India's timetable of adopting International Financial Reporting Standards (IFRS) by 2011, 41 percent of the 94 Indian CFOs, directors of finance, and other executives surveyed said the regulators should move even sooner because China and other global competitors have already effectively switched over to IFRS. It's an indication of how open India is to global standards, and how closely many of its companies are monitoring the competitive landscape.

This study conducted by CFO Research Services for ACCA, the global body for professional accountants, polled finance executives in India as part of a survey of 792 senior executives around the world. Among other objectives, the aim is to elicit value judgments about IFRS and emerging global standards for reporting environmental, social, and other sustainability practices.

The findings paint a picture of India as in line with or even ahead of some jurisdictions on the road to global standards. While 63 percent say that global financial standards will be good for their company (lower than the 72 percent of respondents in Europe, the U.S., and

the rest of Asia), only 2 percent of the India respondents do not intend to adopt IFRS (compared with 8 percent in the other regions surveyed).

The trend is more pronounced with regards to sustainability reporting. The majority of respondents in India—52 percent—have adopted or plan to adopt the voluntary ISO 14000 standards on environmental management, compared with 37 percent in the rest of Asia, Europe, and the U.S. Thirty two percent have adopted or plan to adopt the Sustainability Reporting Guidelines developed by the Global Reporting Initiative (GRI), also voluntary, which is slightly more than the 30 percent who say the same in the other places surveyed.

There are many more respondents who say they plan to implement sustainability reporting in the next three years, compared with the relatively modest numbers that have already adopted the GRI guidelines and ISO 14000 standards in full or in part. India's road to global standards is still long and could be rocky, given the need for legislative action and large-scale training on IFRS. 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.

The regulators should move even sooner because China and other global competitors have already effectively switched over to IFRS. It's an indication of how open India is to global standards, and how closely many of its companies are monitoring the competitive landscape.

> About this report

CFO Asia 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.

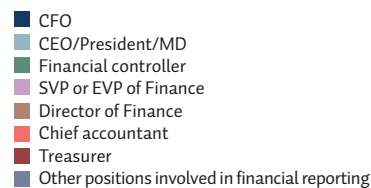
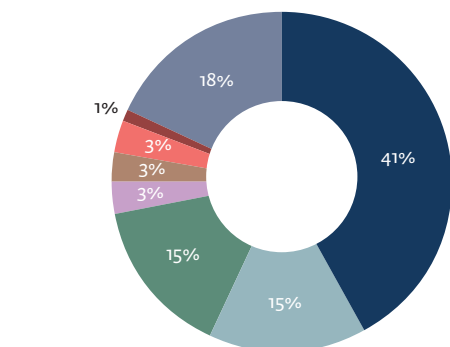
CFO Asia Research Services jointly developed the parameters for this study with ACCA, which funded the research and publication of the report. We would like to acknowledge the ACCA team for their input and support. Cesar Bacani, Research Editor at CFO Asia Research Services, developed the hypotheses 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

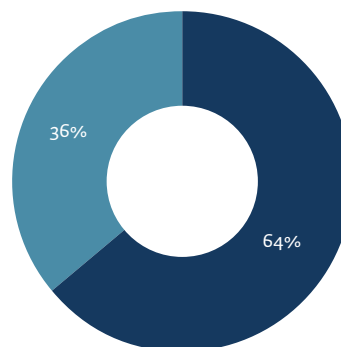
A total of 94 respondents in India qualified for this research because they are CFOs, CEOs, financial controllers, directors of finance, chief accountants, and other senior executives.

Respondents hold positions with the following titles . . .



Base: 94 respondents. Figures do not add up to 100% because of rounding.

. . . come from mostly public companies:



Base: 88 respondents

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

Multinational	36%
National company	23%
Medium-sized enterprise	19%
Small-sized enterprise	15%
Regional company	7%

Base: 91 respondents

. . . with the following in annual revenues:

Less than US\$10 million	18%
US\$10 million to US\$50 million	33%
US\$51 million to US\$100 million	10%
US\$101 million to US\$500 million	17%
US\$501 million to US\$1 billion	1%
Over US\$1 billion	20%

Base: 88 respondents. Figures do not add up to 100% because of rounding.

Executive Summary

This survey of 94 chief financial officers, chief executive officers, financial controllers, directors of finance, chief accountants, and other senior executives finds that India is in line with or even ahead of some of the other areas surveyed in attitudes and intentions toward global standards. The notable findings of this research include the following:

- **Sixty three percent of India respondents expect global financial standards to bring more benefits than drawbacks to their company.** The India executives appear to have come to this conclusion based on a relatively strong grounding in IFRS—63 percent say they have reasonable knowledge of these standards, with 12 percent even saying they have in-depth knowledge. These are remarkably high numbers given that Indian companies are still required to use local country GAAP. But then India has announced a plan to adopt IFRS as Indian Financial Reporting Standards in 2011, and so finance executives evidently have started to prepare themselves. There appears to be wide acceptance of the switch. Only 2 percent of Indian respondents say their company will not adopt IFRS, compared with 22 percent in the United States, which is also contemplating a move to IFRS.
- **Half of the India executives surveyed believe that 2011 is an appropriate deadline, with 41 percent even saying the timetable should be accelerated because China and other competitors are already reporting using global financial standards.** The respondents are already preparing for 2011. Sixty percent are conducting internal studies of how IFRS will affect their financials, while 59 percent each will develop a road map for planning and implementation, and will start training employees on the standards. A third of respondents are not yet sure how their company will conduct the training, but 29 percent will use a professional services firm with IFRS expertise while 22 percent will tap external courses. Only 21 percent are taking a wait-and-see attitude, lower than the 35 percent in the United States.

- **The two main concerns of India respondents about the adoption of IFRS are the potential volatility in their company's financial performance because of standards such as mark-to-market, and the financial burden on the company that full compliance may require.** Interestingly, 53 percent of the executives surveyed estimate that the cost to their company in the first year of switching is less than 0.5 percent of annual revenue. A third puts the expense at half a percent to 1 percent. The worries may also be related to the need for additional training in the years leading to the switch and for new processes and technology.

- **On sustainability reporting, nearly 90 percent of India respondents say they believe a single set of global standards will bring benefits, but 35 percent have not heard of GRI's Sustainability Reporting Guidelines while another 56 percent say they have little knowledge of them.** Awareness of ISO 14000 standards is a bit higher—only 17 percent say they have not heard of them, but 50 percent say their knowledge is sketchy. As a result, 54 percent say they are unable to comment on the stage of adoption in their company of the GRI guidelines; 42 percent say the same of ISO 14000 standards.

Despite their lack of adequate knowledge, 52 percent say their company has adopted or plans to adopt ISO 14000 standards, compared with just 37 percent of respondents in Europe, U.S., and the rest of Asia who say the same. The proportion of companies in India that have adopted or plan to adopt the GRI guidelines is similar to the other areas surveyed—32 percent versus 30 percent.

Will the adoption rates increase further if India respondents were to gain deeper knowledge of GRI and ISO 14000? Our global study suggests they might.¹ 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 India.

¹ 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 (IFRS) 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.²

Accounting standards in India are established by the Institute of Chartered Accountants of India (ICAI), a statutory body established under the Accountants Act of 1949.³ The ICAI has said that it intends to converge Indian Accounting Standards (IAS) with IFRS in April 2011. IAS currently differs from IFRS in several significant areas, among them the treatment of mergers and acquisitions, derivatives, depreciation and foreign exchange transactions.

In general, India respondents say that adopting global financial standards will be good for their company.

While ICAI is moving towards convergence, however, the Securities and Exchange Board of India, Reserve Bank of India, Insurance Development Regulatory Authority, and other institutions have yet to announce their position. The Companies Act, Income Tax Act, and other legislation will also need to be amended. “We do have some challenges in that some of the [international standards] are not in line with the regulations, so therefore you will have contradictions,” says Satish Arunachalam, who heads the financial reporting function at IT services company Wipro Technologies. “But the government is aware

of these, and all the issues should be worked out within a couple of years.”⁴ A task force has been set up, with some of the Big Four accounting firms as members.

Awareness and expectations

The executives surveyed in India seem well grounded in IFRS. Sixty three percent say they are reasonably knowledgeable about these global financial standards, with a further 12 percent even declaring they have in-depth knowledge.



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)?”

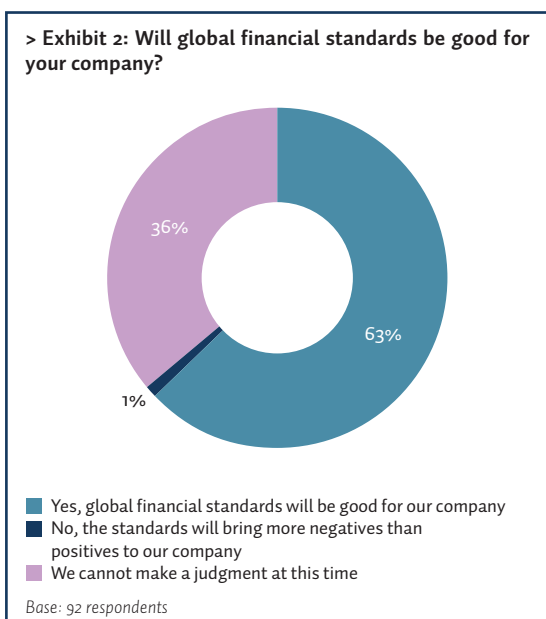
In general, India respondents say that adopting global financial standards will be good for their company. Sixty three percent say so (*Exhibit 2*). This compares with 72 percent of respondents in Europe, U.S. and the rest of Asia who judge that global financial standards have been good (for those that have already adopted IFRS) or will be good for their company (for those like the United States that have yet to adopt them).

² Website of the International Accounting Standards Board at www.iasb.org

³ Website of the Institute of Chartered Accountants of India at www.icai.org

⁴ Interview with Satish Arunachalam, chief accounting officer of Wipro Technologies, July 23, 2008.

While only 1 percent of India respondents say global financial standards will be negative for their company (other areas surveyed: 5 percent), there are more fence-sitters in India (36 percent) than in other jurisdictions (22 percent).



Why do India executives think global financial standards will be good for their company? Asked to rank the benefits they anticipate on a scale of 1 (most important) to 6 (least important), the respondents judged as most important the enhancement of the credibility and comparability of their company's financial statements as a result of adopting IFRS (Exhibit 3).

> Exhibit 3: Benefits of global financial standards

	Average rank, India respondents	Average rank, Europe respondents
They enhance the credibility and comparability of our financial statements	2.1	2.0
They make it easier for us to operate on a global scale	2.3	2.4
They make it easier for us to access bank finance and the capital markets at a lower cost	3.3	3.5
They result in internal cost savings	3.4	5.0
They will improve consistency among regulators, capital markets and the investment community	4.0	3.1
They reduce compliance costs	4.7	4.5

Benefits ranked on a scale of 1 (most important) to 6 (least important)

Ranked the second most important anticipated benefit is helping the company operate easier on a global scale, followed by the expected improvement in consistency in the way regulators, capital markets and the investment community look at the company.

The India rankings are roughly the same as those by respondents from Europe, which adopted IFRS in 2005. This suggests congruence between expectations in India and actual European experience, an encouraging sign that India expectations are by and large not likely to be dashed when the country adopts IFRS in 2011.

However, the expectation that adoption of IFRS will result in internal cost savings, a benefit ranked relatively high in importance in India, may cause disappointment. Respondents in Europe rank this benefit at the bottom of the list, suggesting that their experience is that adopting IFRS does not really result in internal cost savings. The standards are more likely to improve consistency in the way regulators and the capital markets view the company, but this benefit is apparently not prized particularly highly in India.

Getting ready for IFRS

Asked the stage of IFRS adoption in their company, 84 percent of India respondents say they have adopted the standards in full or in part (38 percent), or plan to do so in the next three years (46 percent), as Exhibit 4 shows. The companies that have adopted IFRS are likely to be listed in Europe, Hong Kong, or Singapore, have private-

equity investments, or have borrowings from international banks.

Only 2 percent of India respondents do not intend to adopt IFRS, compared with 8 percent in the other areas surveyed, implying that the executives surveyed believe it is a foregone conclusion that IFRS will be adopted in India, whether they like it or not.

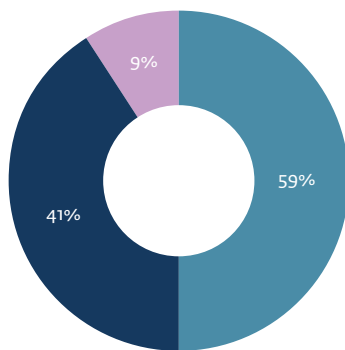
> Exhibit 4: What is the stage of adoption of IFRS in your company?

	India respondents	Other areas surveyed
Adopted/plan to adopt	84%	86%
Do not intend to adopt	2%	8%
Unable to comment	14%	6%

Base: 91 India respondents; 358 respondents in Europe, the U.S., and the rest of Asia

Half of the India executives surveyed believe that ICAI's 2011 timetable will give them enough time to make the switch to IFRS (Exhibit 5). In fact, 41 percent even say the deadline should be moved forward because China and other competitors are already reporting using global financial standards.

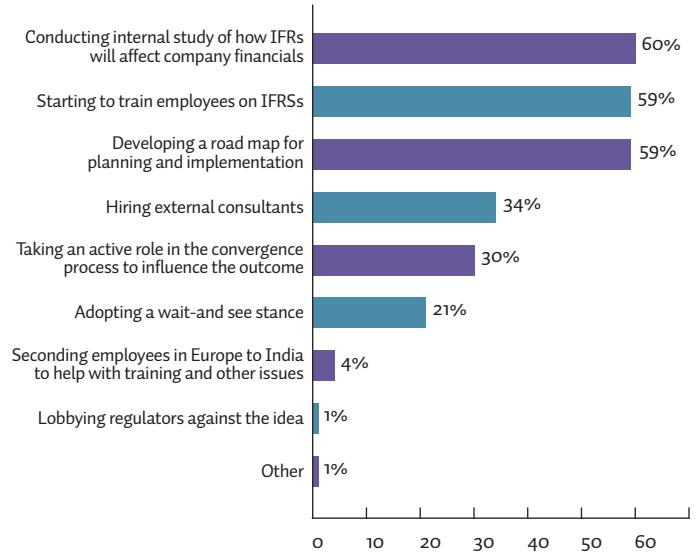
> Exhibit 5: What do you think of India's 2011 timetable for IFRS adoption?



- The current timetable is appropriate
- India should adopt IFRSs as soon as possible because our global competitors, including China, have already done so
- India should delay implementation until after 2011 as more time is needed for us to prepare

Base: 92 respondents

> Exhibit 6: How is your company responding to the planned adoption of IFRS?



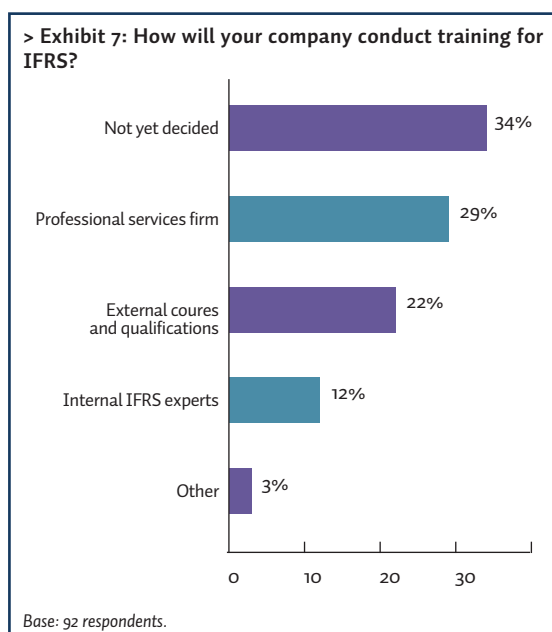
Base: 91 respondents, multiple answers allowed

So convinced are the executives surveyed that IFRS will be adopted that 60 percent are already conducting internal studies on how international standards will affect company financials, starting to train employees on IFRS, and developing a road map for planning and implementation (Exhibit 6).

“Most companies in large and medium corporate segments have started preparing for the reality [of 2011],” says Dr. Paritosh C. Basu, group controller at Essar Group, who was speaking in his personal capacity. “The Big Four accounting firms and chambers of commerce are conducting training programs, and the Institute of Chartered Accountants of India is also very active.” The ICAI will launch an 80-hour training course on IFRS for chartered accountants later this year.

A third of respondents, however, have yet to decide how they will train their people (Exhibit 7). Some 29 percent say their company will hire a professional services firm with expertise in IFRS, while 22 percent plan to send their people to external courses conducted by organizations like ICAI.

⁵ Interview with Dr. Paritosh C. Basu, group controller of Essar Group, July 22, 2008.



Top concerns

The India respondents were asked to rank the drawbacks of adopting IFRS on a scale of 1 (most significant) to 6 (least significant). Two issues emerged as top concerns: volatility in financial performance because of standards like mark-to-market valuation, and the heavy cost of full compliance (*Exhibit 8*).

Also high on the list are the staff's lack of expertise and experience in IFRS and the worry that the standards will not sufficiently take into account the unique circumstances of small and medium-sized enterprises (SMEs).

On the cost of switching to IFRS, the India respondents may be overestimating how much they will need to spend. Sixty five percent of the executives surveyed in Europe say their company spent the equivalent of less than 0.5 percent of annual revenue in changing over to IFRS in 2005. Among India respondents, 53 percent anticipate first-year expense at less than 0.5 percent of revenues (*Exhibit 9*).

A third of India respondents think their company may spend 0.5 to 1 percent of annual revenues in 2011, com-

> Exhibit 8: Drawbacks of adopting global financial standards

Drawback	Average rank
Mark-to-market valuation, treatment of goodwill and other issues unfairly introduce volatility to our financial performance	2.9
The financial cost of full compliance will impose a heavy burden on our company	3.0
Our staff do not have the expertise and experience for the changeover to IFRS	3.4
The standards do not sufficiently take into account the unique circumstances of small and medium-sized enterprises (SMEs)	3.4
It is difficult to find consultants with the expertise and experience to help us transition to the new standards	3.8
The changeover to the new standards seriously disrupts financial management	3.9

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

> Exhibit 9: How much will your company spend in the first year of switching?

Spending Category	India respondents	Europe respondents
Less than 0.5% of annual revenue	53%	65%
0.5% to 1% of annual revenue	32%	22%
1.1% to 3% of annual revenue	11%	11%
3.1% to 5% of annual revenue	3%	1%
More than 5% of annual revenue	0%	1%

Base: 90 India respondents; 113 Europe respondents

pared with just 22 percent of Europe respondents. Some India executives (3 percent) even peg the cost at up to 5 percent of revenues (Europe: 1 percent).

IASB has circulated an exposure draft on a proposed IFRS for Small and Medium-Sized Entities, which is meant to address concern about the applicability of the current standards to smaller companies. In general, SME respondents in India appear more confident than the global SME respondents that IFRS for SMEs will be appropriate for smaller businesses (*Exhibit 10*).

But the proportion of respondents in both samples who say they are neutral or unable to comment (58 percent

> Exhibit 10: How confident are you about the proposed IFRS for SMEs?

	SME respondents, India	SME respondents, global
Not confident at all	0%	5%
Little confidence	7%	15%
Neutral	29%	32%
Somewhat confident	32%	22%
Very confident	3%	5%
Unable to comment	29%	22%

Base: 31 India SME respondents, 97 SME global respondents. Figures may not add up to 100% because of rounding.

for India respondents, 54 percent for global respondents) indicate a significant degree of ambivalence toward the proposal or lack of knowledge about it. In India as elsewhere, time will tell whether the final standards will indeed address the needs and unique circumstances of SMEs.

Another concern in India is the need to amend legislation and other regulations to be consistent with IFRS. KPMG executive director Neville Dumasia recently told reporters that the Ministry of Corporate Affairs should “actively take initiatives for amending the Companies Act 1956.”⁶ Ernst & Young partner Dolphy D'Souza agrees, and adds that the income tax department, central bank, insurance regulator, stock market regulator and other bodies must also act.⁷ The legislative mill moves slowly in India, so the needed amendments must be initiated as early as possible to make sure everything is in place by 2011.

Sir David Tweedie, chairman of the International Accounting Standards Board, says the ball is in India's court. “Every country has this problem,” he says. “There's nothing we can do about it. We can't take into account all the different rules in 112 jurisdictions.”⁸ But what IASB is discovering, says Sir David, is that corporate laws in different countries are also converging as part of the process of globalization. It may take some time, but it may be that India's laws and regulations will indeed be changed to allow a smooth changeover to IFRS.

In India as elsewhere, time will tell whether the final standards will in deed address the needs and unique circumstances of SMEs.

> Wipro: Ahead of the curve

Wipro Technologies is probably ahead of many other Indian companies traveling the road to global financial standards. The IT services giant, which had US\$4.9 billion in revenues last year, listed in New York eight years ago, and thus had to reconcile its financial reporting under Indian GAAP with the more complicated U.S. GAAP.

“We have some experience of managing this complexity,” says Satish Arunachalam, who heads the company's financial reporting function. “For Indian organizations that are doing their base reporting under Indian GAAP it would be slightly different, they would have to migrate to IFRS cold.”

That said, he is not underestimating the difficulties. “In technical terms, in the understanding of the literature and the application, I think we are fairly comfortable, so I would say we are 90 percent ready to do that,” says Arunachalam. “But we have [some way to go] in terms of operational implementation.”

It took Wipro six to eight months to get to an adequate level of U.S. GAAP reporting. That essentially involved only a small group of financial staff. Arunachalam thinks the timeline for IFRS will probably be similar, but with bigger impact on systems and processes because Wipro will be moving from Indian GAAP to IFRS to do its base reporting. That means higher levels of support such as training modules, and tackling the challenge of changing mind-sets from rules-based to a principles-based approach.

“When you talk of convergence, I don't really know at this time what level of convergence,” Arunachalam adds. “There are several differences [between Indian GAAP and IFRS] in terms of stock options, income taxes, business combinations, valuation of financial instruments, and implementation issues like first time adoption”

After looking over the training materials offered by the ICAI, Wipro plans to come to an agreement with the institute for a corporation-wide training program. Arunachalam wants an “India-oriented training module” that is programmed to identify issues in the Indian context. Going forward, he thinks the bigger issue is making sure that the accounting professional course curriculum is overhauled to give fresh recruits the necessary grounding in IFRS. “Plus, moving to IFRS will exert some kind of requirement on the IT infrastructure and other systems as well,” he says.

⁶ “ICAI should speed up efforts to converge with IFRS, says KPMG,” *The Financial Express*, July 11, 2008.

⁷ “From Sep, 80-hour course for global accounting standards,” *Live Mint*, August 6, 2008.

⁸ Interview with Sir David Tweedie, chairman of the International Accounting Standards Board, July 30, 2008.

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.⁹

Asked whether they believe a single set of standards for global sustainability reporting brings or will bring benefits to their company, a resounding majority of U.S. respondents (89 percent) say yes.

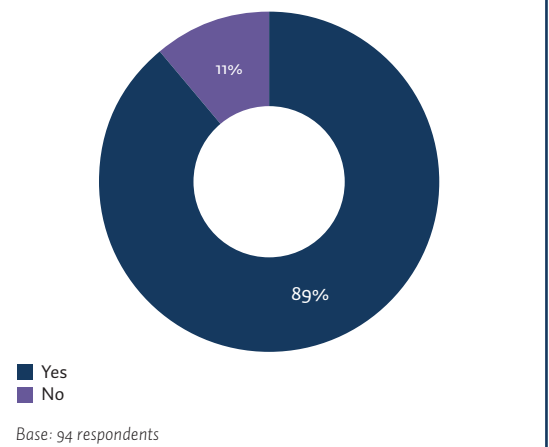
The ISO 14000 family of standards was developed by the International Organization for Standardization for voluntary adoption by companies worldwide. This set of standards addresses environmental management by businesses and other organizations, with the aim of minimizing harmful effects on the environment caused by their activities, and achieving continual improvement of their environmental performance.¹⁰ 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, a resounding majority of India respondents—89 percent—say yes (*Exhibit 11*). It seems everyone approves of the idea—the same proportion of respondents in Europe, the U.S., and the rest of Asia

agree that having one set of global standards for sustainability reporting will bring benefits to their company.

> Exhibit 11: Are there benefits from global standards for sustainability reporting?



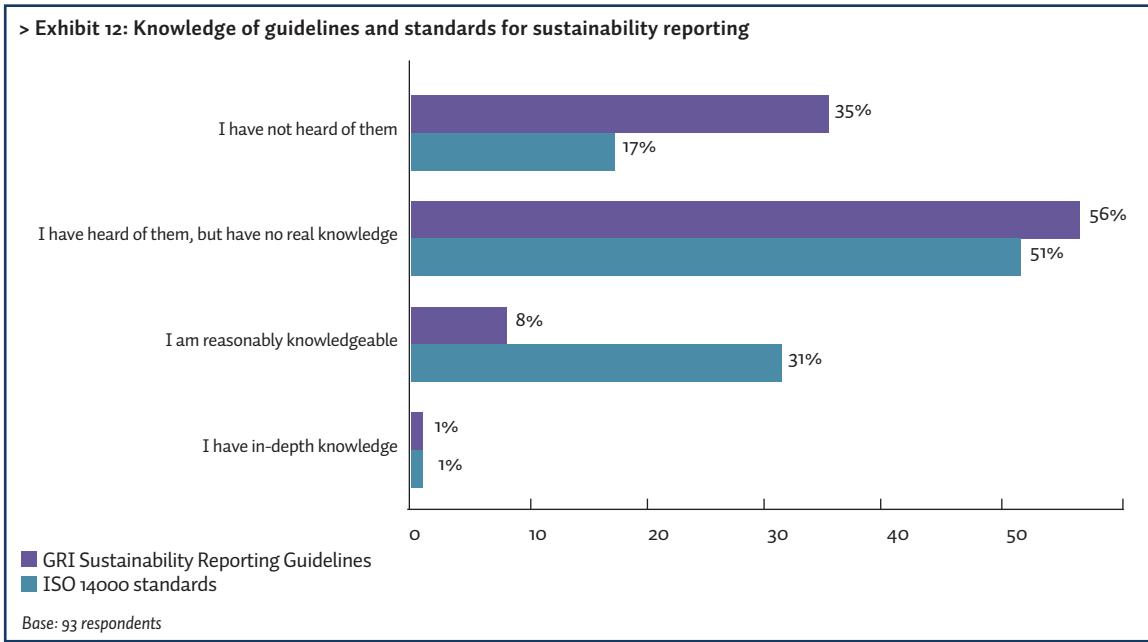
However, most India respondents do not know much about GRI or ISO 14000. A huge majority say they have either not heard of GRI's Sustainability Reporting Guidelines (35 percent) or have no real knowledge (56 percent). Awareness of the ISO 14000 standards is higher, with only 17 percent saying they have not heard of them, although 51 percent admit to having only sketchy knowledge. Some 31 percent of India respondents say they have reasonable knowledge of ISO 14000 standards, compared with just 8 percent who say the same about GRI guidelines (*Exhibit 12*).

Despite their sketchy knowledge of ISO 14000 standards, however, 52 percent of the executives surveyed in India say they have already adopted or plan to adopt these standards in the next three years. Only 37 percent of respondents in Europe, the U.S., and the rest of Asia say the same (*Exhibit 13*). The actual and planned adoption rate in India for GRI guidelines is lower at 32 percent, about the same level as in the other areas surveyed.

It seems that the environmentalist cause looms large among businesses in India, even if knowledge about emerging sustainability guidelines and standards is not

⁹ Website of the Global Reporting Initiative at www.globalreporting.org

¹⁰ Website of the International Organization for Standardization at www.iso.org



that high. “It makes business sense,” says Arunachalam. “It communicates a positive image of the company to investors who are seeking to invest in companies contributing to the cause of the environment.” Wipro makes use of data centers, whose banks of computer servers and air-conditioning facilities require huge amounts of electricity. Arunachalam says the company practices green computing and has launched other environmentally friendly initiatives.

The respondents from India are more ambivalent about the broader GRI guidelines, which encompass economic, environmental, and social performance. “You have the issue of sovereignty, which is exclusively the domain of the political system of a country,”

“It communicates a positive image of the company to investors who are seeking to invest in companies contributing to the cause of the environment.”

group controller Basu explains. “You have to take into account the composition of the population in India, including all communities that matter in terms of population, religious faith, language, and socio-economic status. Global standards must have a common platform, but how can they bridge divergences across societies in terms of human rights, labor rights, social issues, and so on?”

> Exhibit 13: What is the stage of adoption of these standards in your company?

	Adoption/planned adoption		Do not intend to adopt		Unable to comment	
	India	Other areas surveyed	India	Other areas surveyed	India	Other areas surveyed
GRI Sustainability Reporting Guidelines	32%	30%	14%	19%	54%	51%
ISO 14000 standards	52%	37%	6%	18%	42%	45%

Base: 93 India respondents and 356 GRI and 355 ISO respondents in Europe, the U.S., and the rest of Asia.

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," says Ligteringen. He knows of several studies, but he doesn't think they are "absolutely conclusive."

The power of knowledge

A large proportion of India respondents say they are unable to comment on GRI guidelines and 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 India 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 India respondents) suggest that this may be the case.

Exhibit 14 compares adoption rates among the total global 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.

Among executives who know GRI guidelines, however, 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.

It may be that if the standard-setters, and their partners and stakeholders, succeed in raising awareness and fostering deeper knowledge of GRI and ISO, they may be able to significantly increase adoption in the coming years.

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," says Ernst Ligteringen, chief executive of the Global Reporting Initiative. 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 is more stable than of those that do

> Exhibit 14: 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 global respondents	Those with reasonable/in-depth knowledge	Total global respondents	Those with reasonable/in-depth knowledge	Total global 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

¹¹ Interview with Ernst Ligteringen, chief executive of Global Reporting Initiative, July 30, 2008.

As a manufacturing company, JK Paper does not carry derivatives and other financial assets on its books as a bank or insurance company might. It does have factories and equipment, but since impairment is already part of Indian accounting standards, the company has been providing for impairment in its financial statements.

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 using more than 100 quantitative metrics for financial, environmental, and social key performance indicators included in GRI's Sustainability Reporting Guidelines. 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 S&P 100 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 11.53 percent alpha over the S&P 500 and 9.85 percent over the S&P 100 for the first-year return. Through the second quarter, the GSI 50 outperformed the S&P 500 by 10.79 percent and the S&P 100 by 11.25 percent."¹²

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."

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 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."

¹² E-mail interview with Michael Muyot, president of CRD Analytics, August 12 and August 19, 2008

> JK Paper: Great expectations

As India's largest producer of branded paper products and operator of two paper mills, JK Paper knows it has a large environmental footprint. That is why the company has formed a technical team to study sustainability practices, including environmental management. The company says it is the first in the Indian paper industry to win ISO 14000 certification. "But the reporting on environmental practices is not yet exactly in line with what other paper companies are doing worldwide," says V. Kumaraswamy, JK Paper's CFO. "We are working on the entire gamut of issues, including the sustainability guidelines [developed by the Global Reporting Initiative]. We are studying the requirements to comply with them, although they are not mandatory."

Why adopt sustainability reporting when it is not required? "The environment has always been a priority for the company since it started in the 1960s," explains Kumaraswamy. "We aim to be a good corporate citizen, so if there is any framework that will help us carry forward both the message and the mission, it is always useful." Then there are stakeholder expectations. "The issue is one of acceptability to investors as well as loan lenders," adds the CFO. Goldman Sachs and the World Bank's International Finance Corporation own about 10 percent each of JK Paper, whose stock is traded in India but has a secondary listing in Luxembourg.

The same motivation drives the company's preparations to switch to IFRS, quite apart from its expectation that these global financial standards will be adopted as Indian Financial Reporting Standards in 2011, as the Institute of Chartered Accountants of India has declared will happen. "It makes it more acceptable to international investors if our accounts are stated according to international standards," says

Kumaraswamy. "There will be a benefit in terms of how we are seen. And if we want to access more funds from abroad for new growth aspirations, it will definitely help us."

Post-IFRS, he anticipates some changes in JK Paper's financial statements. "The changes which are applicable to everybody will be applicable to us in terms of accounting for property, for example," says the CFO. "There are some financial instruments and convertibles on our balance sheet that will also undergo a change, impairment of assets and so on." JK Paper currently values most assets at cost less depreciation, except investments and financial instruments, which have been written down to realizable value.

But Kumaraswamy expects that "the disturbance might be a one-time off affair, rather than a continuing source of worry." As a manufacturing company, JK Paper does not carry derivatives and other financial assets on its books as a bank or insurance company might. It does have factories and equipment, but since impairment is already part of Indian accounting standards, the company has been providing for impairment in its financial statements. "Even the initial impact may not be that much in our case," Kumaraswamy says.

To get a better handle on the impact, he has launched a quantification study of the effects of IFRS on the company's accounts. Will JK Paper's move to adopt sustainability practices and reporting affect the bottom line as well? "A lot of it costs money, yes," Kumaraswamy allows. "We will have to change some internal systems and people have to change the way they work. But these kinds of things pay for themselves in the long run. They will have a positive impact on the way we work, maybe even on profits." Great expectations, indeed.

Conclusion

This research highlights the openness of the India respondents to global standards, which indicates that the idea of a globalized world is well-accepted in the business community. It was not too long ago that Indian companies were inward-looking and seemingly indifferent to international markets, as government policies kept out foreign enterprises and investment. The economic liberalization started in the 1990s appears to have truly transformed attitudes and business philosophies.

It can only be a good thing when investors and other stakeholders are able to make apple-to-apple comparisons of financial statements prepared by companies wherever they are in the world. Still, India's road to IFRS is long and could be rocky. Internally, companies appear to be doing sensible preparatory work, such as developing a road map for planning and implementation. The ICAI is also starting to offer training courses on IFRS, as are the Big Four accounting firms.

But there is still no clarity on the external front, particularly amendments to legislation and regulatory frameworks. "Here in India, the format and certain aspects of financial reporting are governed by various regulations like the Companies Act, Reserve Bank of India regulations, Banking Regulations Act, and the Insurance Act," says Wipro's Arunachalam. "How will you take that power away from those laws and put it in the hands of the standard-setting process? We need to deal with these regulatory issues [if we want to] achieve convergence."

The announced three-year timeline to 2011 looks ample, but some transitional deadlines are actually much closer. If full convergence is to happen in 2011, companies must comply by next year with IFRS 1, which is a transi-

tory provision that provides certain exemptions to first-time adopters. The ICAI has yet to issue a road map to IFRS 1, although it says it is working on it, at the same time that it is trying to close the gaps between Indian GAAP and IFRS—and liaising with government about the needed changes to laws and regulations.

There is also a question mark about the post-2011 landscape. The ICAI's announced intent is to adopt IFRS as Indian Financial Reporting Standards, but it is not clear whether this means all the international standards will automatically become Indian standards, or some standards may be modified while others are dropped altogether. China, Hong Kong, Japan, and Singapore have taken this latter tack, at least initially, and India may follow suit.

On sustainability reporting, the India respondents' plan to adopt ISO 14000 global environmental standards within three years is laudable. But much more needs to be done, and the onus falls on GRI and ISO, and their partners and stakeholders, to redouble their efforts to educate Indian companies about their guidelines and 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 India believe that 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 Indian companies to adopt their global standards going forward.

The ACCA logo consists of the letters "ACCA" in a white, bold, sans-serif font, centered within a solid red square.

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?

Global reporting standards and the CFO

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 India, CFO Research Services surveyed senior finance executives in Asia Pacific, 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.

India results

In recent years, India has experienced tremendous growth and increased engagement with, and influence on, the world economy. So it is perhaps little surprise that its CFOs seem to have a keen appetite for a move towards global financial standards. Only 2 percent of those surveyed say their companies do not plan to adopt IFRS when introduced in 2011.

In fact, 41 percent of CFOs questioned believe that India's IFRS timetable should be accelerated, to keep pace with competing economies, notably China. They make this request, seemingly confident that they have—or can readily acquire—the relevant skills. Seventy-five percent of executives surveyed in India say they have reasonable or even in-depth knowledge of global financial standards. And 59 percent say they are planning to train employees on IFRS.

However, some of those involved in financial training in India suggest this optimism may mask an underlying lack of appreciation for the size of the task ahead.

Vandana Saxena Poria, CEO of Get Through Guides (GTG), a leading accountancy training provider, feels finance executives may be underestimating the level of preparation required. “I think a lot of people believe that the two standards (IFRS and Indian GAAP) are quite similar and, therefore by default, there is not that much extra to learn. I wouldn’t necessarily agree.”

GTG is already training a number of audit firms and multinational companies in India on IFRS. Vandana finds many of them are taken aback by the differences between Indian GAAP and international standards. And fundamental methods of accounting can be quite different. Examples include redeemable preference shares being shown in equity under Indian GAAP, but as a liability in IFRS; and splitting compound financial instruments into their component parts of equity and liabilities under IFRS, which is not required under Indian GAAP.

“Perhaps the most senior people have the (IFRS) skills, but often those lower down their teams do not,” says Poria. “In fact, most large companies I have spoken to admit to having very little IFRS expertise and are desperate to learn more in advance of 2011.”

On the issue of sustainability reporting, it is heartening to see enlightened companies like JK Paper leading the way. India contains some real CSR leaders—in the 2008 GRI Readers’ Choice Awards, two of the eight award winners (ABN Amro for Best Report: Financial Markets, and ITC for Best Report: People) were based in India.

Eighty-nine percent of Indian CFOs surveyed believe that global sustainability reporting is, or would be, beneficial to their company. And, compared with the other global

regions surveyed, Indian CFOs have the best familiarity with ISO 14000, with 32 percent having reasonable or in-depth knowledge. It is a challenge for ACCA, along with others with a commitment to sustainability reporting, to turn that knowledge into action.

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 European financial reporting in 2005. 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 (GRI) 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 that it can help support the CFO community in India as it moves towards international reporting standards. As developments unfold—particularly in the realm of IFRS—ACCA will be uniquely placed to help provide guidance and updates on issues and developments around the world to CFOs relating to the successful adoption of global reporting standards.

www.accaglobal.com/globalstandards