Role of Accountancy Profession in Global Economic Recovery

We know that high quality financial reporting standards are essential for transparency and for the efficient functioning of capital markets. Accountancy profession is uniquely placed to aid and facilitate the development of such standards around the world. Emergence of interdependent financial markets explains the momentum gathering behind the move to global accounting standards. Investors need comparable, reliable financial reporting around the world. For global investor protection, we need a global accounting language. Preparers and policymakers are aware of the importance to the integrity and stability of those markets of having comparable and credible financial information. This article comments on the role that accountancy profession can play and has been playing towards the global economic recovery. Read on…

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The financial crisis has only served to highlight how difficult it is to rebuild investor confidence when investors are uncertain about the information they have available to them. Investors flee uncertainty and run to quality during bad times. Understanding this premise is essential in order to fully appreciate the significance of work conducted by the IASB and is a key to appreciating the importance of the accounting profession to the sound management of financial markets across the world. Markets depend on investors, and we aim to help investors through the development of a single set of high quality International Financial Reporting Standards.

A great deal of progress has been made towards achieving the aims of IASB in ten years since it was established. For most of its first decade, the IASB's agenda was largely shaped by necessity. The initial effort focused on substantially updating the International Accounting Standards (IASs) inherited from the IASB's predecessor and identified by IOSCO as having the potential to become global accounting standards. Creation of the IASB as a full-time standard-setting body with significant international support and credibility provided the necessary encouragement for the European Union, Australia and New Zealand to require the use of IFRSs from 2005. These first movers' encouraged fast-growing economies particularly in Asia, South America and Africa to begin to recognise the need for global reporting standards in an increasingly global marketplace.

At the same time as the IASB began its work, a series of accounting scandals in the United States meant that US standard-setters were also eying substantial changes to US GAAP. It made perfect sense to coordinate this work and in turn to align US and international financial reporting requirements. So began a decade of work to improve IFRSs and US GAAP and to bring about their convergence. This programme of work has dominated the agendas of both the IASB and the FASB since 2007 and, although most of the projects under the agreement have been completed successfully, work still continues on this important and complicated project.

To deliver a stable platform of standards in time for European adoption of IFRSs in 2005 and then to complete a major portion of a complicated convergence programme with the United States in just over a decade is clearly an enormous achievement. It is even more remarkable when you consider that the latter part of the decade was set against the backdrop of the most serious financial crisis since the 1930s.

Progress

The financial crisis served to increase the urgency of work aimed towards the establishment of global standards. Policymakers around the world have asked for a level playing field in financial reporting and the development of such standards is seen as an essential element of the global regulatory reform agenda.

Repeated G20 communiqués have supported the work of the IASB and called for a rapid transition towards global accounting standards. To date, a significant majority of G20 members require the use of IFRS. In barely a decade we have seen the number of countries requiring or permitting the use of IFRS rise to over 100. Around half of the companies currently in the Fortune 500 index report using IFRS. We have reached a stage of critical mass, having largely overseen the transition of accounting standards from local to international it we are now looking to progress towards the truly global evolution of these standards.

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What about the remaining G20 members? Well, China has already substantially reformed its own financial reporting standards through a continuous convergence process and the differences between those standards and IFRSs are now very small. Furthermore, it is clear from discussions with Chinese authorities that there is a real appetite to complete this work and to complete their transition to IFRSs.

In Japan, since 2009 domestic Japanese companies have had the option to report using full IFRSs. Several large multinational companies have already completed this transition and it is estimated that more than 50 others are making preparations to follow suit. The Japanese authorities are expected to make a decision this year on a mandatory transition to IFRSs, but once the major Japanese companies have completed their transition then you have de facto adoption.

Saudi Arabia, where IFRS is already required for banking and insurance companies, has recently committed to fully embracing IFRS. This is particularly significant for India as it illustrates the swing towards IFRS that is occurring throughout the Middle East, a region of importance for Indian accountants.

Perhaps the most eagerly anticipated decision is whether and how the United States will incorporate IFRSs into its own financial reporting regime. The IASB and the FASB have spent 10 years, since the Norwalk agreement laying the groundwork for this decision through a dedicated and fruitful effort of convergence. We await the result of the SECs deliberations on this most important topic. Whatever the outcome, it is clear that for those markets still experiencing real growth, IFRS has become the de facto financial reporting standard. These emerging markets are attracting vast amounts of inward investment from US fund managers

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looking to spice-up their investment portfolios. This situation is not likely to change in the foreseeable future.

Moving forward, it is likely that emerging markets such as India, China, Brazil and Russia will prove to be the most important drivers of a global recovery rather than the established economies of North America and Europe. In this sense, ensuring the adoption and thorough application of IFRS in these economies is as important a contribution to the global economic recovery that members of the accountancy profession are likely to make.

India

As a case in point, we should ask how the adoption of IFRS could serve to help a nation such as India. Whilst I have outlined the merits of comparable, reliable financial reporting from the perspective of global investors we should also mention the benefits that high quality accounting standards can bring to adopting nations. India is of course an important signatory to the G20 and early on it looked as if it was following a path towards full adoption of the IASB's standards. However, in recent years India has wavered from this course and it is now less clear when this will happen.

The irony of this position is that India is perhaps the best placed of all the emerging market economies to benefit from a national transition to IFRSs. The key role that the world believes India can play both in the development of global standards and in the economic recovery in general is reflected in the makeup of the IFRS Foundation. India is represented at every level, from the Trustees through to the IASB. However, this is no time for complacency, as India still has a great deal to contribute to the development of accounting standards.

Since the 1990's India has grown into one of the worlds key emerging economies. Growth has been accelerated by economic liberalisation and has averaged more than 7% a year since 1997. India's burgeoning middle classes have produced a new generation of young, skilled, English speaking professionals who have helped the country become a major exporter of information technology services and software workers. The country's progress and success has been typified by its powerful services sector, which accounts for more than half of India's output with only one third of its labour force. The Indian economy responded well to the global financial crisis, supported by strong domestic demand.

Bolstered by this success, Indian companies have grown and looked overseas for further opportunities. Conglomerates such as Tata have been highly acquisitive in the last ten years, purchasing high profile brands such as Jaguar Land Rover and Corus Steel.

On the other hand, standards of corporate governance in India initially failed to keep pace with its rapidly expanding economy. It has been widely recognised that the existing regulatory system and GAAP requirements need a revamp to keep up with the requirements of a large and rapidly developing economy and member of the G20.

To address this, India has made a number of policy commitments aimed at reforming its regulatory

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infrastructure. Progress is being made in the implementation of a number of areas of in line with the G20's reform agenda. These include including the adoption of Basel capital adequacy norms, and convergence with international financial reporting standards. Our own institute has done a tremendous job in completing the convergence effort before the earlier deadline of 01 April 2011 by issuing IndAS. However, not much has happened since then and new accounting standards continue to be issued by the IASB, meaning that IndAS are not fully in line with the latest version of IFRS.

We continue to live in somewhat uncertain economic times and despite India's rapid growth, many investors remain risk averse. Press reports recently stated that overseas entities, investing in Indian markets through 'Participatory Notes', are estimated to have pulled out over Rs 1 trillion in less than three months on fears of getting caught in the government's taxation net and its black money trail. It would appear that confidence in the integrity of Indian markets is still an issue. Such events have nothing to do with accounting standards, but having global accounting standards can serve to help by stemming the loss of confidence.

The adoption of IFRS and subsequent use of the standards by Indian companies would facilitate a much greater level of transparency for investors both domestically and abroad. These enhancements are likely to become increasingly pertinent as state industries continue to be deregulated and privatised attracting greater levels of foreign investment to the country. Sound financial sector regulation will support investor and market confidence in the Indian economy and help channel investment for strong and sustainable growth.

The benefits of full adoption would not stop at the borders. It is clear that the world is moving to international accounting norms and India is almost uniquely placed to become THE place to outsource entire IFRS-based finance departments. Our highly educated, English-speaking workforce are prime candidates to become IFRS experts who can go on to offer IFRS-related services all around the world.

However, the advantage enjoyed by Indian professionals will be short lived if the country fails to keep up with the demands of the global economy. Whilst our accountants are acknowledged as some of the best in the world, we must be aware that it faces stiff competition from regional counterparts such as Sri Lanka and Pakistan, both of whom have adopted IFRS and are training their accountants accordingly.

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If we want Indian accountants to retain their leading position in the global market and continue to export their expertise, especially to regions such as the Middle East, we must ensure that they are trained to the standards employed by those regions. If our academic institutes are churning out experts in Indian GAAP then the opportunities are more limited.

The success of any given nation can be defined in terms beyond that of monetary wealth and purchasing power or other economic indicators. Of equal importance is the intellectual and cultural impact that individual countries can have on the world through their values, culture, policies and institutions. This concept has been described as "soft-power" and in order to gain it, nations must display competency, commitment and engagement.

This concept holds true for India's involvement in the development of global accounting standards. As a proud member of this institute I can say unequivocally that the standards of India's highly regarded professionals have never been in doubt. However, despite a great deal of engagement from all sides, it seems that India's commitment towards this important work has wavered in recent years. I have no doubt that India will do the right thing, but time is now becoming a more critical element. As movements and organisations develop, their rules naturally become more rigid and structured, making it harder for newcomers to influence and change accepted norms. IFRSs will be no different, and India should be more decisive in its actions to take advantage of the opportunity to influence their development.

Undoubtedly, Indian chartered accountants with their education, experience and acumen, have a lot to contribute to the continued development of the accountancy profession. I'm also confident that in the years to come, under the able guidance of our institute, our members will play a much more prominent role in the global economy. To ensure this we must redouble our efforts to remove the obstacles hindering India's path towards international standards. ■