

**STUDY ON GLOBAL FINANCIAL REPORTING
CONVERGENCE, FINANCIAL TRANSGRESSION AND
REGULATORY FRAMEWORK
(WITH SPECIAL REFERENCE TO INDIA AND
SELECTED G8 COUNTRIES)**

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ABSTRACT

**Study on Global Financial Reporting Convergence,
Financial Transgression and Regulatory Framework
(with special reference to India and selected G8 countries)**

ABSTRACT

The accounting standard is the standard language of the business which is adopted by all businesses in the business world. This helps in understanding the business even by a layman. But these standards vary from country to country and globalization has made it impossible for the countries to reap the benefits if they all use their standards which is the real case. There arose a need for commonly accepted standards that should be global and should be applicable across the globe in all the countries (Shil et al., 2009). But there is a huge problem to adopt such common standards. The common among them is different economic conditions and environment and differences in traditions. So, the International body IASB that is International Accounting Standard Board took the initiative to draft common standards taking into confidence all the member nations of the United Nations in 2001 and asked the countries to either adopt them or converge them with their accounting standards keeping in view the applicable laws and economic conditions as well as traditions of the country.

India was also asked to adopt these common standards being a member of the United Nations but considering the various problems in adopting these standards in their original form, it accepted the converged form. India modified these International Financial Reporting Standards (IFRS) according to its traditions and named them as (Indian Accounting Standards), popularly known as Ind-AS. So in the context of India, when the term Ind-AS is used, it means the modified form of IFRS. Dr. Manmohan Singh's government accepted 2006 to adopt these standards in 2011 but they were failed to implement them in that year. Then in 2014, it was agreed to adopt it from 1-4-2015 voluntarily and after that on a compulsory basis in the phased manner.

Banks and Insurance companies are also covered under the Companies Act but Ind-AS are only applicable for other companies but not on banking and insurance

companies for which there appears to be a lack of political will on the part of the various governments in India.

In the context of India, two main bodies regulate the companies. One is the Securities and Exchange Board of India (SEBI) and the second is the Companies Act, 2013 which was replaced with the Companies Act, 1956 and came into existence in 2013. All the accounting standards which apply to companies are issued by the Ministry of Corporate Affairs (MCA).

Guidelines relating to corporate governance are also given in the Companies Act, 2013 in specific sections and also given by SEBI. Both these bodies have made many committees and codes for developing guidelines on corporate governance in India which were headed by renowned business tycoons.

The two major regulators in the UK are The Prudential Regulation Authority (PRA) and The Financial Conduct Authority (FCA) which are responsible for the financial soundness and safety of their banks and other things for the enhancement of the services by providing the best services to their clients.

Securities and Exchange Commission (SEC) is the regulatory body in the USA that works independently to regulate the stock market and thereby helps to protect the interest of the investors. USA has also its own set of accounting standards popularly known as US GAAPs. USA has brought some measures in the form of enacting new Acts during this period as the Sarbanes-Oxley Act of 2002, Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Jumpstart Our Business Start-ups Act of 2012. In the United States, the financial regulatory system is in the hands of the Fed which is just like RBI in India who looks after the operations of the banks. So a monetary system in the USA is mainly run by Fed and stock market operations are controlled by SEC to ensure economic growth.

The commercial code of Germany includes regulations related to the preparation of financial statements. It provides guidelines to prepare and report financial statements. This code works similarly to US GAAPs as far as accounting standards are concerned and there are many similarities in both of them. As an EU member state, it has been found that Germany is following EU norms according to which IAS/IFRS are

followed by it. Just like the UK, Germany is bound by EU directives and guidelines issued by it from time to time.

The regulatory body for the formation of accounting standards in Japan is the Accounting Standards Board of Japan (ASBJ) and these standards are known as Japanese GAAP as designated by the Financial Service Agency of Japan. Japan has the liberty to adopt any of four kinds of standards namely Japanese GAAP, US GAAP, IFRS, or Japan's modified international standards (JMIS).

So, each country discussed has its financial reporting standards and regulatory system with the help of which these countries operate their working for the corporate sector. Also with the help of the system, they can find such financial transgression cases occurring in the country. Thus, the gaps were explored with the help of such regulatory bodies and financial reporting standards that were into the practice. Moreover, the regulatory framework also benefited to solve the corporate financial transgression faced in some countries.

According to Bhasin (2013) and Majumdar (2012), Financial transgression is wide-range of illegal acts and illegitimate practices involving misrepresentation, intentional deception. It majorly occurs when there is a gap between the current financial reporting practices and the regulatory framework. Financial transgression includes gaps or frauds that even though do not appear on the surface, but are present in the underneath levels. The pain of financial transgression is not only faced by developing countries but is also faced by developed countries in the form of financial losses that are caused to the economy. It includes losses that are caused to the government in the form of exchequer and reduction in reputation.

Research Gap

The study examined the facts related to the meaning, concept and factors that result in Financial Transgression. It was found that there have been studies related to the prevalence of corporate financial transgressions but the specific studies related to G8 countries and India have been limited. Therefore, the current study identified facts related to the prevalence of corporate financial transgression in India and filled the gap. The current study also examined facts related to global financial practices and the

regulatory framework that is conducive to avoid corporate financial transgression. It was found that there have been previous studies related to the global financial practices and the regulatory framework conducive to avoid corporate financial transgression but specific studies related to G8 countries and India have been very much limited. Therefore, the current study has identified relevant facts and filled the gap. Thus, it can be said that the current research identified facts related to global financial reporting convergence, financial transgression, and regulatory framework concerning India and selected G8 Countries.

Research Objectives

- To know the need for global financial reporting convergence in selected countries.
- To explore the gaps in the financial reporting practices and regulatory framework which lead to corporate financial transgression in selected countries.
- To compare pre convergence and post-convergence financial reporting practices and amendments made in the regulatory framework to prevent corporate financial transgression in India.
- To explore the further scope for the refinement of global financial reporting practices and regulatory framework to prevent future corporate financial transgression in India.

Research Design and Methodology

Research Design

Descriptive Research Design has been chosen for these case studies

Sample Size and Period of study

The period starting from 1991 till date has been selected and to see the changes that were made in the regulatory framework in India.

As many as 5 countries are selected for the study out of which 4 are highly industrialized nations of G8 countries with the highest projected GDPs along with

India which is at number 3 in terms of projected GDP based on purchasing power parity (PPP) for 2017.

Table1: Projected GDP based on Purchasing Power Parity (PPP) for 2017

Country	GDP (ppp) \$ bn (2017)	Share in World GDP	Rank
United States	19,417.144	15.3	2
Japan	5,420.228	4.28	4
Germany	4,134.668	3.26	5
United kingdom	2,905.392	2.29	9
India	9,489.302	7.49	3

Source: International Monetary Fund World Economic Outlook (April - 2017)

Sampling Technique

Purposive sampling technique has been adopted to achieve the objectives of this study where samples are chosen deliberately to come to a conclusion.

Data Collection

The data has been collected from secondary sources like research articles, books, journals of ICAI and ICSI, Annual Reports of various Companies, Newspaper articles and various websites. This process has provided various details on the frauds happening in India and outside India, such as Germany, Japan, the USA, UK.

Data Analysis

The following research has been conducted using secondary data, various facts and figures are covered under the study. Tables describing the frauds that happened in India and other countries are used for analysis. Content analysis has been done in this study to understand the various case studies with the help of extensive literature survey and also the Atlas Ti software has been applied on the thesis to prove the objectives.

Major Findings

- It is found that investors across the world want new and diversified opportunities to invest whereas companies are always in need of funds and try to raise their capital requirements through international operations. But there are apprehensions in the minds of investors and companies when they are to rely on international transactions.
- Cost of capital will automatically be reduced and it will lead to the availability of higher liquidity for companies because of following a single set of accounting standards that is IFRS.
- Companies have to make financial reports by using local GAAPs and IFRS when they are operating in many countries. This leads to an increased risk of error and more and more auditing rules and regulations to ensure compliance.
- It is also found from this study that the benefits of standardisation of reporting practices across countries can be best obtained if IFRS are properly enforced as it also helps in detecting frauds happening in most developed nations.
- Despite the fact mentioned concerning the adoption of IFRS, it is found in this study that the greed of individuals is increasing and persons involved in doing corporate frauds and misconduct are at the top level in the organisation. Whenever they are doing these mischievous things, they do severe damage to the organisation as well as to the economy of the country because any scam or fraud comes into the limelight as happened in the case of Satyam, Nirav Modi, or Vijay Mallya.
- This study also reveals the fact that the government of India and regulatory bodies took many steps to abate the number of frauds to check the recurrence of such acts which happen due to nexus between company officials, professionals, banks, and bureaucrats. The present government closed down around 5.50 lakh shell companies till June 2018 which were almost one third of total registered companies and were not operative but were formed only for wrongdoings and siphoning off money from one company to another. This number further soared to 6.83 lakh companies up to June 2019 and it was

around 36% of the total registered companies announced by the Finance minister in Lok Sabha as mentioned in the leading newspaper The Economic Times.

- It was also found that the banking, insurance, and police agencies in India are not equipped with modern technologies to overcome the problem of such cases occurring and to catch the culprits involved. The perfect example of such a case is Nirav Modi who did it for seven years but when it came to the limelight, he fled and still absconded.
- It is found in this study that the level of punishment in various countries that are taken into account varies from country to country. In certain cases, it was more than 20 years imprisonment in the USA and also perpetrators were penalised with a huge fine. But in the case of other countries, the guilty were not punished at all but only fined. India is one such country, where the guilty were either not caught or were not fined or got absconded.
- There is a very alarming finding of this study that two big business players namely Vijay Mallya and Nirav Modi absconded after they were found guilty. They ran away from the country when the whole country came to know that they have done wrong.
- The recent four cases of big financial transgression cases in India were found recently namely the Yes Bank crisis, PMC Bank Crisis, IL & FS crisis, and DHFL crisis. All these cases are interconnected.

Conclusion

This study is done to find why India is in bad shape as far as the cases of financial transgressions are concerned because it not only affects the organisations but the economy of the whole country. Also we have seen many monumental problems because of occurrence of such cases. This study has proved many a things when it is compared with developed nations. No doubt, developed nations have also witnessed cases of financial transgression. They have incurred huge losses but their action was so quick in implementing the remedies that they are overcoming the problems of such cases. Moreover, the trouble with India is not that of using remedy but afterwards.

Whenever remedy is taken, there is no proper follow up. The punishment was given to general public when they were deprived to withdraw their money which was their whole life savings in few cases and same happened incase of Yes Bank.

There were good changes made in new Companies Act 2013 wherein provisions relating to whistle-blower policy, class action suits were added. Insolvency Code 2016 was brought to provide a shelter to the insolvent companies so that investors will not be affected. Many committees were formed on corporate governance by SEBI from time to time under the chairmanship of renowned business tycoons. If we really want to reap the benefits of this study which concludes that whatever is implemented, be it IFRS, be it change in regulatory framework or be it any code on corporate governance, all should act in tandem. Present state of implementation of IFRS only for companies but not for banking and insurance sector is highly dangerous which may bring disastrous results in the coming future if not implemented. India has huge potential to be at the top at any point of time but we need to work very hard and to take stringent measures.

Suggestions

- Awareness programs to educate the stakeholders regarding utility of IFRS must be initiated at a large scale.
- The role of auditors in India needs to be redefined because every time when a scam occurs in an organisation, it is found that auditors have not played their role effectively yet no action is taken against them.
- There is a need to watch the outcome of applicability of corporate governance recommendations and immediate action would be required if there is flaw in any of the provisions.
- IFRS should be implemented in banks and insurance companies as early as possible but the pathetic situation is that government of India is deferring this decision to implement IFRS in these sectors.
- A sound and disciplined regulatory framework creates trust among the society at large when business transactions are carried out across the borders. It involves procedures, rules, regulations, strong investor protection and good corporate governance. Fast Track courts can bring this action in quickest form

and guilty can be punished at the earliest. The action on the part of regulator must be quick.

- Exemplary Punishment and recovery of money from such perpetrators is the one stringent action which is rarely taken in case of India. If it is not followed in future as well, then probably no body will be afraid of again doing wrong things.

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List of Abbreviation

AS	Accounting Standards
ASB	Accounting Standard Board
ASBJ	Accounting Standards Board of Japan
ASSOCHAM	Associated Chambers of Commerce and Industry of India
BaFin	German Federal Financial Supervisory (Bundesanstalt für Finanzdienstleistungsaufsicht) Authority
BOE	Bank of England
BOJ	Bank of Japan
CAG	Comptroller and Auditor General
CEO	Chief Executive Officer
CFTC	Commodity Futures Trading Commission
CG	Corporate Governance
CII	Confederation of Indian Industry
DCA	Department of Company Affairs
DIC	Deposit Insurance Corporation of Japan
DOJ	Department of Justice
EBA	European Banking Authority
EU	European Union
FASB	Financial Accounting Standard Board
FBI	Federal Bureau of Investigation
FCA	Financial Conduct Authority
FDI	Foreign Direct Investment
FED	Federal Reserve
FEMA	Foreign Exchange Management Act
FIFO	First in First out
FII	Foreign Institutional Investors
FIPB	Foreign Investment Promotion Board
FMC	Forward Market Commission
FOS	Financial Ombudsman Service
FSA	Financial Services Agency

FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
IAS	International Accounting Standards
IASB	International Accounting Standard Board
IASC	International Accounting Standards Committee
ICAI	Institute of Chartered Accountants of India
ICSI	Institute of Chartered Secretary of India
IFC	Internal Financial Control
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
Ind-AS	Indian Accounting Standards
IRDAI	Insurance Regulatory and Development Authority of India
JMIS	Japan's modified international standards
LIFO	Last in First out
LPG	Liberalisation Privatisation & Globalisation
MAR	Market Abuse Regulation
MCA	Ministry of Corporate Affairs
MCX	Multi Commodity Exchange
NASSCOM	The National Association of Software and Service Companies
NFRA	National Financial Reporting Authority
NMCE	National Multi Commodity Exchange
NSEL	National spot Exchange Limited
OFCD	Optionally Fully Convertible Debenture
PFRDA	Pension Fund Regulatory and Development Authority
PRA	Prudential Regulation Authority
PSD	Payment Service Directive
RBI	Reserve Bank of India
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002

SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SESC	Securities and Exchange Surveillance Commission
SFIO	Serious Fraud Investigation Office
SIMEX	Singapore International Monetary Exchange
SOX	Sarbanes Oxley Act
SSM	Single Supervisory Mechanism
UCX	Universal Commodity Exchange
UK	United Kingdom
UKLA	UK Listing Authority
USAO	US Attorney's Office

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CHAPTER-1

INTRODUCTION

INTRODUCTION

1.1 Global Financial Reporting Convergence

The accounting standard is the standard language of the business which is adopted by all businesses in the business world. This helps in understanding the business even by a layman. But these standards vary from country to country and globalization has made it impossible for the countries to reap the benefits if they all use their standards which is the real case. There arose a need for commonly accepted standards that should be global and should be applicable across the globe in all the countries (Shil *et al.*, 2009). But there is a huge problem to adopt such common standards. There are genuine reasons for not adopting such standards in one single go. The common among them is different economic conditions and environment and differences in traditions. So, the International body IASB that is International Accounting Standard Board took the initiative to draft common standards taking into confidence all the member nations of the United Nations in 2001 and asked the countries to either adopt them or converge them with their accounting standards keeping in view the applicable laws and economic conditions as well as traditions of the country.

Convergence of these common standards means that genuine departure can be made based on the traditions and economy of the country. India was also asked to adopt these common standards being a member of the United Nations but considering the various problems in adopting these standards in their original form, it accepted the converged form. India modified these common standards namely International Financial Reporting Standards (IFRS) according to its traditions and named them as Indian Accounting Standards, popularly known as Ind-AS. So in the context of India, when the term Ind-AS is used, it means the modified form of IFRS. Due to dual pressure, India has to adopt converged standards. The first one is the global pressure to implement such standards although India after agreeing to implement them in 2011, did not adopt them in that year. The Indian government accepted in 2006 to adopt these standards in 2011 but they were failed to implement them in that year. Then in 2014, it was agreed to adopt it from 1-4-2015 voluntarily and after that on a compulsory basis in the phased manner as under (Barodiya & Saxena, 2015):

Table 1.1: Ind-AS Applicability in India

Time period from which Ind-AS are applicable in India	1-4-2015 to 31-3-2016	1-4-2016 to 31-3-2017	1-4-2017 onwards
Criteria of adopting Ind-AS	Adopted voluntarily	All listed and unlisted companies having a net worth that is greater than or equal to Rs 500 crores will have to adopt Ind-AS on a mandatory basis.	All listed companies will have to apply Ind-AS on a mandatory basis but unlisted companies will apply these if their net worth is more than or equal to Rs 250 crores.

Banks and Insurance companies are also covered under the Companies Act but Ind-AS are only applicable for other companies and not on banking and insurance companies for which there appears to be a lack of political will on the part of the various governments in India.

1.2 Benefits to India by Adopting IFRS

The convergence of local GAAPs with IFRS will build the reputation of the companies across the globe as the companies and investors in the other countries will find it conducive to do business with the countries having a similar set of standards. The cost of capital will be reduced by following converged standards. The simple reason is that companies will not have to go for multiple reports, instead, they will be following a single reporting system that will be acceptable across the globe. Indian corporate world will become more competitive than before as the comparability of these companies with their global counterparts would be easier now (Vora & Sahoo, 2011). The adoption of IFRS also impacts sustainable development in many ways. Sustainable development is all about fulfilling the requirements of the present generation but without affecting the needs of coming generations. Investors can

participate in the global market as there is a reduction in the information gap between capital seekers and lenders. Transparency is provided by these standards as it focuses on more and more disclosure norms to be followed (Marulkar, 2013). So, adoption of the International Financial reporting standards affect the businesses globally. Not only will this but the CSR activities also be boosted because of these standards. These standards will have a direct positive impact on CSR activities because when these CSR activities have to be reported by the companies under the requirements of these standards, then companies will have to go for all-round development of the society and will have to incur a set expenditure to fulfill the requirement of these converged standards. This will lead to more international exposure and will help to accelerate growth in domestic as well as foreign business.

1.3 Regulatory System - Worldwide Existence and its Effectiveness

1.3.1 Regulatory System of India

In the context of India, two main bodies regulate the companies. One is the Securities and Exchange Board of India (SEBI) and the second is the Companies Act, 2013 which was replaced with the Companies Act, 1956 and came into existence in 2013. All the accounting standards which apply to companies are issued by the Ministry of Corporate Affairs (MCA). These accounting standards play a vital role in presenting a true and fair view of the financial statements of the companies. Ind-AS also come under the purview of MCA. No doubt, MCA takes the help of the Institute of Chartered Accountants of India (ICAI) in drafting such standards. When India adopted the converged standards in 2015, from then onwards, the applicability of those standards started on various companies as per the criteria mentioned. At present, Ind-AS apply to all the listed companies of India.

Guidelines relating to corporate governance are also given in the Companies Act, 2013 in specific sections and also given by SEBI. Both these bodies have made many committees and codes for developing guidelines on corporate governance in India which were headed by renowned business tycoons. A very recent committee that was formed was Kotak Committee in 2017 under the chairmanship of Mr. Uday Kotak who gave its recommendations and almost all were accepted barring a few with no modifications or with little modification.

1.3.2 The International Accounting Standards Board (IASB) and the International Financial Reporting Standards (IFRS)

International Accounting Standards Committee (IASC) is the international body that came into existence in 1973 in London. It brought international accounting standards between 1973 and 2001 to bring transparency and reliability in financial statements across the globe. From 1997 to 1999, this committee was restructured and it resulted in the formation of the International Accounting Standards Board (IASB). Again in 2001, when the need was felt for uniformity of accounting standards at the global level, then IASC came up with revised standards named as International Financial Reporting Standards (IFRS).

While giving focus on the financial regulatory system in India, it has been observed that the financial system is regulated with the major support of independent regulators with support in the field of insurance, commodity market, banking, capital market. To study and understand the Indian financial system, there are important regulatory bodies namely, Reserve Bank of India (RBI), Security and Exchange Board of India (SEBI) and Companies Act, 2013.

The RBI is the major monetary institution that was established in April 1935 in Calcutta but later, it was shifted to Mumbai in 1937. After its nationalization in 1949, it was owned directly by the Government of India and it is also known as the Central Bank of India. It has a unique role in banking management. Its major function is to influence the management by laying a strong foundation of all commercial banks through its various policies, organizing, planning, making regulations, and directions. The RBI's major role is to maintain economic stability by maintaining people's trust in the banking system and growth of the economy. The security and Exchange Board of India (SEBI) was established in 1988, but it came into effective power in 1992. It is owned by the Government of India. The statutory status of SEBI empowers it to make Stock Exchange laws and regulate them to create a healthy environment, to create awareness among investors by reducing manipulation and fraud by promoting fair practices. All stock exchanges are working as per the guidelines of SEBI. To understand, as the stock market plays a vital role to promote a country's economic health, so the people's faith in the market is crucial. If they lack trust then the country

starts losing its FDI and FIIs which will hamper the foreign exchange inflow. Thus SEBI has to regulate the harmonious relationship among the investors and the stock exchange market to attain a transparent and healthy environment. The Companies Act, 2013 is fully overhauled after a long gap which was originally formed in 1956. This act contains provisions relating to companies and applicable rules and regulations on companies, important among them are Accounting Standards and norms relating to corporate governance. Although, corporate governance norms are also given by SEBI which are to be followed by companies. Accounting Standards are the common standards applicable in India for companies in preparation of financial statements so that they will give a true and fair view of the same.

1.3.3 Regulatory System in Selected G8 Countries

To focus on the financial regulatory system in the United Kingdom (UK), it was studied that the banking sector of the UK is diverse in functioning. It primarily incorporates commercial banks and retail by focusing on their loans, payment system, savings, and investment banking, to motivate them to raise customer's money on the capital market, involve them in the securities and businesses. After the financial crisis, the UK banking sector had to face multiple challenges. Taking into consideration the earlier mistakes, many new reforms were introduced. The two major regulators in the UK are The Prudential Regulation Authority (PRA) and The Financial Conduct Authority (FCA) which are responsible for the financial soundness and safety of their banks and other things for the enhancement of the services by providing the best services to their clients.

Securities and Exchange Commission (SEC) is the regulatory body in the USA that works independently to regulate the stock market and thereby helps to protect the interest of the investors. USA has also its own set of accounting standards popularly known as US GAAPs. Unfortunately, the USA has still not implemented IFRS but the cases of financial transgression rose to a considerable level in the USA by violating either by manipulating books of accounts or by violation of the law. But the USA has brought some measures in the form of enacting new Acts during this period as the Sarbanes-Oxley Act of 2002, Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Jumpstart Our Business Start-ups Act of 2012. In the United

States, the financial regulatory system is in the hands of the Fed which is just like RBI in India who looks after the operations of the banks. So a monetary system in the USA is mainly run by Fed and stock market operations are controlled by SEC to ensure economic growth.

The commercial code of Germany includes regulations related to the preparation of financial statements. It provides guidelines to prepare and report financial statements. This code works similarly to US GAAPs as far as accounting standards are concerned and there are many similarities in both of them. As an EU member state, it has been found that Germany is following EU norms according to which IAS/IFRS are followed by it. Just like the UK, Germany is bound by EU directives and guidelines issued by it from time to time.

The regulatory body for the formation of accounting standards in Japan is the Accounting Standards Board of Japan (ASBJ) and these standards are known as Japanese GAAP as designated by the Financial Service Agency of Japan. Japan has the liberty to adopt any of four kinds of standards namely Japanese GAAP, US GAAP, IFRS, or Japan's modified international standards (JMIS). JMIS is the modified version of IFRS which is similar to Ind-AS in India. Japan's financial regulatory system includes two essential parts which are legislation and regulatory authorities. The legislation includes the directives and guidelines that are to be followed by the financial firms and banking organizations to carry out monetary activities. The authorities such as the Financial Services Agency, Securities and Exchange Surveillance Commission (SESC), Deposit Insurance Corporation of Japan (DIC), Bank of Japan (BOJ) plays an important role in regulating the working of financial institutions and banking firms in Japan.

So, each country discussed has its financial reporting standards and regulatory system with the help of which these countries operate their working for the corporate sector. Also with the help of the system, they can find such financial transgression cases occurring in the country. Thus, the gaps were explored with the help of such regulatory bodies and financial reporting standards that were into the practice. Moreover, the regulatory framework also benefited to solve the corporate financial transgression faced in some countries.

1.4 Gaps in the Present Financial Reporting Practices and Regulatory Framework that can Cause Financial Transgression

According to Bhasin (2013) and Majumdar (2012), Financial transgression is wide-range of illegal acts and illegitimate practices involving misrepresentation and intentional deception. It majorly occurs when there is a gap between the current financial reporting practices and the regulatory framework. Financial transgression includes gaps or frauds that even though do not appear on the surface, but are present in the underneath levels. The pain of financial transgression is not only faced by developing countries but is also faced by developed countries in the form of financial losses that are caused to the economy. It includes losses that are caused to the government in the form of exchequer and reduction in reputation.

The financial scams that reveal the presence of a gap in the current financial reporting practices and regulatory framework that cause financial transgression ranges from the Harshad Mehta scam in India to Worldcom Scam in the USA. While focusing on the Harshad Mehta scam in India, it is mainly related to the securities market scam that occurred in the year 1992. In the scam, Mr. Harshad Mehta acquired securities of the State Bank of India with the help of corrupt officials of the Bank and failed to deliver the securities. Mehta raised the rates of stock prices of the companies in which he had invested through fictitious practices because of which many investors started investing in the mounting stocks. When the prices of the stocks were raised to a considerable level, Mehta sold off the stocks and earned huge profits out of the sale. However, due to the sudden release of a large number of stocks in the market, the prices of stock fell abruptly and the stock market crashed from 4500 points to 2500 points at that time. It created chaos in the stock market and among the investors because of which many investors lost their money which they had invested in the companies promoted by Mehta. For example, the National Housing Bank (NHB) lost INR 1199.39 crores, the State Bank of Saurashtra lost INR 175.04 crores, The SBI Capital Markets Ltd (SBI Caps) lost INR 121.23 crores, and the Standard Chartered Bank lost INR 300 crores (Barua & Varma, 1993).

The Harshad Mehta scam laid a negative impact on the performance, sustainability, and growth of the stock market in India as the market lost INR 1 trillion in 2 months.

As per the survey conducted by Janakiraman Committee Report, the scam badly hit the market with a loss of INR 4025 crores. The condition of the investors and stockists worsened because the governing body restricted the sale of shares that were bought by innocent shareholders in the form of securities. As a result, the value of the shares was reduced to threshold levels which degraded the financial environment further. It caused political turbulence in India as the people demanded resignation from the then Finance Minister and the Governor of the Reserve Bank of India. As per the facts, the resignation was presented by the Governor but the same was rejected by the then Prime Minister. The scam also negatively impacted the working of banks as the investors came to banks to claim money against the investments made by them in the bank securities. However, the banks were unable to pay back to the investors as they did not have any securities against the loan that was taken by Mehta. Thus, due to gaps in the financial reporting practices and the then regulatory framework, financial transgression took place that impacted the financial markets of India adversely.

While focusing on Worldcom Scam in the USA, it caused damage of 750 million dollars to the Securities and Exchange Commission (SEC) as it had to compensate the investors. Sarbanes-Oxley Act was introduced to protect the investors from financial irregularities and meet the gaps that existed in the current financial reporting practices and regulatory framework and caused financial transgression (Goel *et al.*, 2017). The scam mainly occurred due to the highly ambitious aspirations of WorldCom's CEO, Bernie Ebbers, and the lack of the regulatory practices of the financial organizations. Due to a lack of appropriate regulatory supervision, Ebbers got the opportunity to forge the income statement, balance sheet, and Annual report of the company. The fraudulent activities were carried out by Ebbers with the support of the upper management executive Chief Financial Officer (CFO) Scott Sullivan who assisted Ebbers in deceptive trading practices. Ebbers misused the accrual method and forged the company's operating expenses by \$3 million and showed a profit of \$1.4 billion in the year 2001. However, the scam was exposed in the year 2002 which led to the collapse of the company and filing for bankruptcy. It included the conviction of Ebbers and Sullivan. The exposure of the Worldcom Scam in the USA led to the formation of the Sarbanes-Oxley Act (SOX) so that the interests of the investors could

be safeguarded from public company loopholes and defrauds investors. The important directives that are provided by the Sarbanes-Oxley Act (SOX) include the prevalence of auditing in the company, compulsory mandating of internal control in public owned firms. It also mandates the firm to change the audit company after every five years and increased the penalties against criminal offenses and securities scams.

Due to Worldcom Scam in the USA, there was a loss of US\$ 750 million to the SEC as the organization was required to pay the compensating amount to the investors. Therefore, the US financial regulatory framework has been strengthened to reduce the corporate financial transgression activities such as Worldcom Scam. It includes filing the scam case under the Department of Justice (DOJ) that verifies the case with the help of CFTC and SEC units. The case is investigated with the help of a set of juries and the US Attorney. Therefore, by implementing stringent regulations, corporate financial transgression is reduced in the United States.

To reduce the accounting irregularities and regularize the financial reporting process in the United Kingdom, Financial Services and Markets Act 2000 (FSMA) and the Financial Services and Markets Act Order 2001 (RAO) have been introduced by the government. The other regulatory bodies such as the Financial Conduct Authority (FCA) regulations, Prudential Regulation Authority (PRA) Handbook have been introduced to regulate the corporate financial transgression. Additionally, bank fencing activities have also been implemented in the form of Core Activities Order and Excluded Activities Order so that there is a reduction in financial risk holdings. Thus, it can be said that the UK government has adopted appropriate measures such as the introduction of PRA rulings and European (EU) rulings so that risks associated with investment funds, securities, and derivatives trading are reduced.

The financial fraud cases have increased in Germany that has raised concern over the financial regulation system within the country. For example, due to financial fraud committed by the payment system provider company Wirecard, a loss of US \$ 2.1 billion was faced by the investors. Financial scams related to tax caused a loss of US\$ 443 million in the form of tax losses. Thus, to reduce the increasing number of fraud cases in Germany, the governing body has established a single Supervisory Mechanism (SSM), Deutsche Bundesbank, Banking Act so that rules related to

appropriate financial reporting are strengthened. It will help in reducing the corporate financial transgression cases witnessed by the country. It also includes the introduction of the German Federal Financial Supervisory Agency (BaFin) so that the financial infringement activities are controlled.

Financial fraud cases such as scams at Olympus and fraud at Toshiba negatively impacted the economic growth of the Japanese economy. The major reasons behind the fraud in Olympus and Toshiba were lack of ethical consideration such as honesty, confidentiality, objectivity and responsibility, integrity and credibility while performing financial activities. Therefore, the governing body in Japan has introduced the IMA Statement of Ethical Professional Practice so that there will be consideration of financial ethical standards for the conduct of financial activities. A complex Fraud Crisis Management has also been introduced by the Japanese government so that the financial transgressions activities are controlled effectively. It also includes the establishment of Fraud Risks Management Policy and Procedures so that there is adequate monitoring of financial transgressions and execution of safety measures in the financial organizations. As a result, due to the implementation of the IMA Statement of Ethical Professional Practice and Fraud Crisis Management, there will be a reduction in frauds and scam cases in Japan.

1.5 Pre-convergence and Post-convergence Disclosure Practices and Prevention of Financial Transgression in India

Financial transgressions are threats to the growing economy and lay huge pressure on individuals, firms, and the government to fight against fraudulent activities. The government of India has introduced several measures and policies to reduce bribery, cheating, deceptive accounting, and wrongful monetary reporting. It includes the establishment of the Companies Act, 2013 (CA 2013) to implement internal financial controls (IFC). The Act protects against fraud by compelling the companies to follow aforesaid firm policies, safeguard assets, and maintain accuracy in the company account records.

Additionally, the Institute of Chartered Accountants of India (ICAI) provided an additional auditing practice in the form of Internal Financial Controls over Financial Reporting so that the interests of the investors are safeguarded against scams. It

provides the compulsory involvement of external auditors so that the internal auditing activities performed by a company are verified rightfully. Modifications have been included in the Companies Act, 2013 that provides an anti-fraud mechanism to the businesses to prevent fraudulent activities (Deevy *et al.*, 2012). For example, the Companies (Amendment) Act, 2017 has been included that protects the stakeholder interests from scammers. The other regulatory measures such as the Prevention of Corruption (Amendment) Act, 2011, and Prevention of Money Laundering Act, 2002 (PMLA) have been implemented to safeguard the interests of the firm against fraud (Narayanan, 2004).

The key regulations such as the RBI Act 1934, the FEMA 1999, and the Banking Regulation Act 1949 (BR Act) have been introduced by the government of India to prevent fraudulent activities and secure the working of firms. For example, the BR Act and CA 2013 provide standards and guidelines to the companies to perform corporate governance activities. It includes forming the auditing committee to authenticate the company accounting process. It also advocates the formation of a risk management committee so that threats and risks that are faced by the company are assessed by the team and provide security to the debenture and shareholders.

Coming to the state of affairs in other countries, the financial practices that are conducive to prevent financial transgression in the United States, includes the formation of The Sarbanes–Oxley Act of 2002 (SOX). The regulations predicate criminal violations and impose civil liability that restricts the incidence of fraudulent activities. Additionally, the organizations such as the Federal Bureau of Investigation (FBI), the US Attorney's Office (USAO), Commodity Futures Trading Commission (CFTC), and Securities and Exchange Commission (SEC) have been formed by the government of the United States to formulate rulings against financial transgressions. For example, when any case is filed with the Department of Justice (DOJ), it authorizes SEC and CFTC to verify and authenticate the proceedings of the case. The organizations have the power to issue a warrant or seize the property upon the request of the US Attorney and investigate the federal crimes by forming a set of juries. The jury may also penalize the guilty by asset confiscation, disgorgement, and fines. Thus,

by imposing stringent regulations and rulings against scammers, the increasing incidence of financial transgression cases can be reduced.

While focusing on the pre and post-disclosure practices that are conducive to prevent financial transgression in the United Kingdom, it includes the introduction of the Financial Services and Markets Act 2000 (FSMA). It prevents individuals/firms from practicing monetary transactional activities without any valid verification and authentication. The Financial Services and Markets Act Order 2001 (RAO) has been introduced by the government of the United Kingdom to regulate the financial activities in the country. It provides security to the firm against risks associated with investment funds, securities, and derivatives trading. Additionally, the Payment Services Regulations 2017 has been introduced so that payment services practices are regulated in the UK banking and financial firms. The Prudential Regulation Authority (PRA) Handbook, Financial Conduct Authority (FCA) regulations, and European Union (EU) rulings are also to be included in the company functionaries in the United Kingdom. In the case of the UK, before membership with the EU, it required to follow directives related to market abuse in the form of Market Abuse Regulation (MAR) and payment services in the form of Payment Service Directive (PSD). The PRA rulings provide the implementation of the ring-fencing regime so that restrictions are laid down on the financial transaction of the banking firm. For example, the workings of the Royal Bank of Scotland and Lloyds Banking Group are governed by the UK as well as EU directives.

Japan has introduced complex Fraud Crisis Management so that the financial transgression activities are minimized effectively. Fraud Crisis management includes several phases such as initial investigation, fact-finding, and analysis. It includes the implementation of the Business Continuity Plan and recommendations for remedial actions so that there is public disclosure and implementation of remedial actions. Finally, there is the establishment of Fraud Risks Management Policy and Procedures so that there is adequate monitoring of financial transgressions so that there is the execution of safety measures in the financial organizations. Fraud Crisis Management applications are also extended to misappropriation cases and corruption issues. It also considers the frauds that occur in the accounting segment, insider trading, and

sanctions investigation. It will help in reducing the issues of frauds and scams that are faced by individuals and firms in conducting financial activities.

Germany's pre and post-disclosure practices that are conducive to prevent financial transgression include the adoption of Basel I, II, and III so that the working of banks can be regulated accordingly. The latest modification in the Basel regulation includes the directives that are provided by the European Union (EU). It also provides amendments to the Banking Act and Other Banking Regulations. Additionally, supervisory legislation has also been introduced in the form of the German Federal Financial Supervisory Agency (BaFin) so that the financial transgression activities are controlled.

1.6 Corporate Governance

In this study, we are discussing the cases of financial transgression in India and selected G8 countries. The reasons of happening such cases like the collapse of international giants like Worldcom, Enron, and Satyam compelled the need for corporate governance principles in companies. The losses were huge and these corporate giants paid the cost because of a lack of good corporate governance practices. The management of these firms along with their financial consulting firms adopted corrupt practices which resulted in heavy losses to investors and shook investors' interest in the companies.

Corporate Governance helps to maintain a balance between management and owners so that independent decisions can be taken and it will help to create trust between the company and external stakeholders. It compels the use of transparent and fair practices by management and results in the great integrity of audit reports. Taking independent directors on the board ensures an unbiased attitude and helps in dealing the matters relating to the welfare of the company. Checks and balances and adherence to rules of the company in true spirit are integral parts of good corporate governance. This ensures investors' loyalty to the companies and hence companies enjoy an everlasting market reputation.

1.6.1 Emergence of Corporate Governance in India

Corporate Governance is the term that was first used by the Confederation of Indian Industry (CII) in the late 90s in the context of Indian companies so that it may be adopted by such companies voluntarily (Usman, 2017). This is considered to be the first initiative in India for such measures. It has mentioned best-in-class practices of corporate governance to be followed by listed companies in India. They are considered best because they have the features of fairness, transparency, accountability and responsibility in the management of companies. SEBI is another statutory body that has taken the initiative to incorporate corporate governance in India. Firstly, it introduced clause 49 of the listing agreement and then introduced the reforms mentioned by Naresh Chandra Committee and Narayana Murthy Committee. Both these committees took a strong viewpoint of not only shareholders but also that of investors and other stakeholders for corporate governance. In 2009, voluntary guidelines were issued by SEBI on corporate governance which brought real changes in the Indian corporate world. Then with the few sections introduced in the new Companies Act, 2013, corporate governance got a full-fledged role in the form of independent directors, women directors, corporate social responsibility, etc.

1.6.2 Concept of Corporate Governance in India

To operate, regulate, and control businesses, there are certain rules, practices, and processes that have to be followed. Corporate governance is the combination of all these things which are required for the business. A business has many stakeholders and corporate governance helps to make a balance between all stakeholders so that profits can be maximized and shareholders' wealth can be increased.

According to the Institute of Company Secretaries of India,

“Corporate Governance is the application of best Management Practices, Compliance of Laws in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.”

According to Standard and Poor

“Corporate Governance is the way a company is organized and managed to ensure that all financial stakeholders receive a fair share of the company’s earnings and assets.”

According to the Cadbury Committee U.K.

“It is a system by which companies are directed & controlled”.

1.6.3 Principles of Corporate Governance in India

The Board of directors is said to be the brain of the company and the company’s prosperity and growth fall under the leadership and guidance of the board. Committed to fulfilling the vision and mission of the company, motivating the employees, effective decision making and capitalization of the opportunities to the maximum benefit of the organization are the core tasks of the board. If it is not able to fulfill its tasks effectively and efficiently, it may result in problems and may lead to the closure of the business. Not only this but shareholders should be informed of every aspect relating to the company and all the shareholders should be treated equally, be it minority or majority shareholders. The transactions which may lead to a conflict of interest are either should be avoided or must get prior approval of the shareholders. Following are the principles of corporate governance:

- **Transparency:** Every stakeholder should get accurate information relating to the company timely. This ensures transparency on the part of the company and it increases confidence among shareholders to invest in the company. For this purpose, the policies should be framed in such a manner that it will automatically result in transparently disclosing information. Also, it is a very good promotional tool for companies who are doing well or who want to do well. Transparency is not only to be maintained between the company and external stakeholders but it should also be maintained between directors and employees. Directors should be easily accessible to employees and be open to the ideas of management and employees. This will ensure more commitment among employees for the betterment of the company.
- **Accountability:** Accountability is one such principle which if followed in true spirit, then a person can't do wrong very easily because if a person can be

made accountable for any act of wrongdoing, then he will be afraid of doing anything wrong. To achieve this purpose, Employees should be accountable to the management, management should be accountable to the board of directors and the board of directors should be accountable to investors and shareholders. Everyone should learn from their mistakes and it results in better utilization of available resources as the resources are always scarce in an organisation.

- **Responsibility:** Accountability and responsibility go side by side. If people are held accountable for the work they are assigned, then it becomes their responsibility to do the right. The board of directors must fix the responsibility of the management and the employees and these should be made accountable to ensure that responsibilities are being carried out properly.
- **Fairness:** All the stakeholders should receive equal treatment from the company and directors should try to prevent conflict of interest. Fairness in transactions is one such big parameter that can ensure fairness. For example, in the case of related party transactions, it must be with prior approval of the shareholders to show fairness.

1.6.4 Theories of Corporate Governance

As per Study Material, ICSI (2020), following are the theories relating to corporate governance:

- **Agency Theory:** According to this theory, shareholders are the principles and management is the agent. A wrong view taken in this theory is that company is responsible only towards shareholders.
- **Stewardship Theory:** This theory is also known as the trusteeship theory. The Board of Directors (BOD) and CEO act as trustees of the property of the business. Managers are not agents of shareholders.
- **Stakeholders Theory:** This theory takes into consideration a broader view than agency theory and it includes the satisfaction of interest of all stakeholders and is not confined to shareholders only.

- **Political Theory:** According to this theory, government plays a big role in the allocation of rights and responsibilities along with the control among various stakeholders.

1.6.5 Models of Corporate Governance

➤ **Outsider Model (Anglo American/ Anglo Saxon model) (UK, USA, Canada, Australia, etc)**

1. This is a shareholder's oriented model.
2. Ownership and control are in separate hands and all decisions are taken after taking approval from shareholders.
3. Disclosure norms are stringent.
4. Well-developed stock market.
5. Both insider and outsider directors.
6. Unitary board of directors. Directors are elected by the shareholders.
7. Low influence of trade unions as compared to the German model.

➤ **The Insider Model**

a. German Model

- Also called European model or two tier board model. Also known as the continental Europe model.
- Workers have a prominent place in this model as they have the right to participate in the management of the company.
- There are two boards:
- Supervisory board – shareholders elect the members of this board and employees also elect their representative which is generally 1/3rd or half of the board.

- Management board – Supervisory board appoints management board and monitors it. The supervisory board has the power to dismiss the management board and reconstitute it. It consists solely of insiders or executives.
- The size of the supervisory board is determined by law. It can't be changed.
- Banks have a major role in these corporations because they are the largest shareholders.
- Weak stock markets and stock exchanges are not organised.
- Disclosure requirements are less stringent.

b. Japanese Model

- It is bank centred. Japanese corporations have a close relationship with the main bank.
- Japanese companies raise a significant part of capital through banks and other financial institutions.
- There is a supervisory board which is composed of BOD and a president who is jointly appointed by shareholders and banks/ financial institutions.
- Outside directors or independent directors are rarely found.
- Banks exercise their powers to remove any director if they found anything wrong. Ministry of finance reviews relationship between different groups and have implicit control over negotiations.
- There is a lack of transparency.

c. Family Based Model

- Prevalent in underdeveloped and developing countries like India, Brazil, Saudi Arabia.
- A small number of powerful families control companies.
- With the weak regulatory framework, banks and outsiders don't exercise power.
- Outside directors are appointed to meet regulatory requirements.

Role of corporate governance in Family Business

Indian model of corporate governance is based on Anglo saxon model, although it has taken more of family based model shape. India is a country where corporate giants are family owned businesses like Tatas, Birlas, and Reliance (Rajharia and Sharma, 2014). They all are public listed companies and enjoy a major share in the market. In the case of family businesses where there is a very thin line between power play & conflicts and fair play and transparency. Fair play and transparency take a back seat in such family owned businesses if they are not properly managed. Corporate governance is one such criterion which if followed in such business, then it may lead to a lesser number of problems. It becomes a measuring rod to determine the long term success and growth of the company and also helps in maintaining peace in the family. It also helps in maintaining a fair balance between ownership of the family and the management control by the outsiders.

1.7 Problem Statement

Financial transgressions are monetary fraudulent activities that impact the working of the company, individuals and economy adversely. It occurs when there are gaps in the regulatory framework implemented in the country. The different scams such as the Worldcom Scam in the USA and the Harshad Mehta scam in India highly affected the financial conditions of the market, investors, and economy. The financial transgressions are observed in the form of insurance scams, commodity market frauds, banking frauds, capital market scams, and pension funds frauds. It gives rise to the global crisis and hampers the monetary working of financial institutions. Additionally, financial transgressions give rise to inappropriate financial accounting that does not allow the assessment of predictive value and causes inflation in the market. It also does not allow financial authentication of facts resulting in misappropriation of assets and funds. Financial transgression is regarded as a criminal offense that is conducted by using dishonest practices by scammers or fraudsters to earn an individual profit. The scammer conducts illegal activities such as phishing, misappropriation of accounts, forgery of documents, and bribery, etc to get personal gains. It not only affects the financial stability of the firm but also hampers the political-economic stability of the country. Therefore, countries like the United

Kingdom have introduced the UK Fraud Act, 2006 so that the cases related to financial transgressions are resolved and the guilty individual (s) is/are punished severely. Thus, it can be said that identification, examination, and prosecution of financial transgression are necessary to reduce the occurrence of fraudulent cases.

1.8 Scope of Study

The current research is highly useful as it provides valuable information related to global financial reporting convergence in India and the selected G8 countries. The study also provides an in-depth insight into the gaps in the financial reporting practices and regulatory framework which lead to corporate financial transgression in selected countries. It also discusses facts related to pre-convergence and post-convergence financial reporting disclosure practices and amendments made in the regulatory framework to prevent corporate financial transgression in India. Additionally, the study is considered to be highly beneficial as it helps other scholars and researchers to research a similar topic as they can take references from the current study for the researching process. The study will also be useful to the policymakers, firms, banking organizations, as they will get better learning opportunities about corporate financial transgression and they can accordingly introduce stringent measures or policies that would deter the fraudsters and scammers from carrying out any illegal activity. Further, the study will be beneficial to banking organizations and institutions as they will get better learning about the corporate financial transgression and policies that are adopted by nations to fight against financial frauds.

1.9 Thesis Structure

Chapter 1: Introduction

The introductory section provides the entire background of the research framework. The section provides detailed information concerning the regulatory system that exists worldwide and its effectiveness. Then it studies in-depth the Global Financial Reporting practices followed by the G8 countries. Further, it outlines the various gaps that exist in the current financial reporting practices and regulatory framework which cause financial transgression. The section also highlights the meaning of financial transgression. It then compares pre and post-disclosure practices conducive to prevent

financial transgression. The section is directed towards providing the novelty of the current thesis. It outlines the important contribution the study makes both in theoretical and practical terms.

Chapter 2: Review of Literature

This section briefly outlines the varied types of financial reporting frameworks used in different G8 countries. It simultaneously previews Indian Accounting Standards Board (ASB) and the International Accounting Standards Board (IASB). This section provides a brief of the International Financial Reporting Practices in the Indian Context. Further, it outlines the difficulties faced in the adoption of its guidelines. The section highlights the meaning, concept, definitions, and factors that result in Financial Transgression. Further, the section consequently outlines the prevalence of corporate financial transgression in India. The section provides brief information on global financial practices and the regulatory framework that is conducive to avoid corporate financial transgression. The research gap that has emerged after reviewing the comprehensive literature is mentioned here. Moreover, the way the present study addresses this gap is also elaborated here.

Chapter 3: Research Methodology

This section discusses the type of approaches undertaken by the researcher to accomplish the study and reason for choosing the same is also be justified here. The present study collects secondary data and it is collected from research articles, books, Journals of ICAI, Annual Reports of various Companies, Newspaper articles, and various websites. It will also include authentic reports from Government and Non-Government organizations for secondary data collection.

Chapter 4: Data Analysis and Interpretation

After the collection of the data, analysing the data is an important part. This portion comprises the data analysis done along with an interpretation of the same. Data Analysis is done with the help of a review of the literature and by using Atlas Ti software.

Chapter 5: Findings, Conclusion& Suggestions

The important findings that have been gained after the process of data analysis are mentioned in this section. Further, crucial findings that match with the literature reviewed in the study can also be correlated. It also highlights the conclusions drawn from the above study and finally, suggestions along with further scope in this research are given at the end.

CHAPTER-2
REVIEW
OF
LITERATURE

This chapter deals with review of literature and the research gap based upon that review. This review has been segmented into 8 sections. Section 2.1 represents understanding existing global financial regulatory framework. Section 2.2 deals with need for global financial reporting convergence. Section 2.3 shows role of IFRS in the Indian context. Section 2.4 deals with financial transgression and its prevalence in India. Section 2.5 explains factors leading to transgression and measures to tackle. Section 2.6 deals with action taken by regulatory authorities. Section 2.7 represents the research gap. Section 2.8 deals with research questions.

2.1 Understanding Existing Global Financial Regulatory Framework

According to Flower & Ebbers (2018) global financial reporting is referred to as the monetary reporting system adopted by countries across the globe. Global financing reporting is known as a universal financial reporting process that is accepted by every country and does not belong to the proprietorship of any specific country. The adoption of global financial reporting is essential to enhance foreign direct investment and portfolio investment. FDI is essential for the growth and progress of developing and emerging economies. The companies working in the international markets need expertise and additional funds to expand functionaries to larger frontiers. Additionally, countries also require foreign investment funds to expand their infrastructure, water, and energy sector so that there is the promotion of economic growth opportunities. The economic expansion also helps in creating more employment opportunities and increasing the wages of the earning members. On the other hand, portfolio investment is defined as the investment that is made by individuals and firms in other businesses in which they do not exercise any control. Portfolio investment in different forms such as bonds, stocks, shares, mutual funds, traded funds, and closed funds are essential to increase the investment resource of the countries. Therefore, it is recommended that different countries adopt a unified accounting process (IFRS) provided by (IASB) so that a standard financial reporting system is adopted by all countries. The adoption of a global financial reporting process is beneficial as it helps in improving debt management by tracking the current assets and liabilities. It also helps in monitoring the liquidity aspects of the firm so that the debts are managed accordingly. The implementation of global financial

reporting also helps in identifying previous and present trends so that there is the handling of the firm's weakness and enhancement of the overall working of the firm. Financial reporting provides real-time information that helps the management to make a rightful business decision so that financial liquidity is maintained within the firm. Financial reporting also plays an important role in determining the liabilities such as credit lines, credit extended from vendors, business loans of the firm. As a result, due to global financial reporting rightful status about the company's liabilities is gained that helps in reducing the volume of liabilities systematically. Global financial reporting includes IFRS that is adopted by different countries such as India, China, Australia, Canada, Japan, Germany, and other 110 countries to raise investment, enhance internal decision making, improve internal vision, and increase capital and performing audits.

Singh & Srivastava (2019) examined that the International Accounting Standards Board (IASB) is an independent International Financial Accounting Standards unit that provides guidelines for accounting practices. It was established in the year 2001 by replacing the International Accounting Standards Committee to develop financial standards globally. It comprises 14 members that provide guidelines for developing international financial reporting standards (IFRS). IASB ascertains all the technical matters of the IFRS Foundation by developing a technical agenda. The agenda is discussed with Trustees and the public and finally drafted after receiving consultations from all the members. IASB prepares and issues guidelines for IFRS implementation and it develops drafts for the amendments or introduction of new policies or standards. It also issues Interpretations that have been developed by the IFRS Interpretation Committee so that financial reporting is done promptly. The IASB framework includes five essential accounting or financial elements which are asset, liability, equity, income and expense so that there is the development of appropriate accounting standards for the preparation of financial statements.

Ismail (2017) analyzed that IASB is one of the global financing regulatory bodies that provide guidelines for global financial reporting through IFRS. It provides guidelines through which the understanding of financial statements is enhanced. IFRS provides rulings that enhance transparency, comparability, and clarity on areas of concern. On

the other hand, IFRS Advisory Council (IFRS AC) consists of heads from different countries that give recommendations to the IASB for the development of new IFRSs. Thus, IFRS AC acts as an advisory committee that provides suggestions and discusses new standards that are to be included in IFRS so that corporate financial transgression activities could be eliminated.

Bullen & Crook (2005) examined that International Accounting Standard Board (IASB) and Financial Accounting Standards Board (FASB) have been established as authorized regulatory bodies to set guidelines for disclosure of financial statements, and financial reporting for publicly held companies. Other bodies such as Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) have been introduced to secure the workings of the banks. PRA is responsible to perform and regulate financial workings as the prudential regulator and FCA is responsible to regulate monetary activities as the conduct regulator. PRA and FCA work under the Financial Services and Markets Act 2000 (FSMA) and provide directives related to conducting business, prudential activities, and authorization. Additionally, other regulatory bodies such as Bank of England (BoE), Her Majesty's Treasury (Treasury), Payment Services Regulator, Financial Ombudsman Service (FOS), Financial Services Compensation Scheme (FSCS), and European Banking Authority (EBA) have been established to regulate the financial activities in the United Kingdom.

According to Carin & Mehlenbacher (2010), the G8 countries include representatives of different countries such as the United States, Canada, France, Germany, Italy, Japan, Russia, and the United Kingdom. Initially, the G8 comprised of six members, namely the United States, France, Germany, Italy, Japan and the United Kingdom in which Canada was added in the year 1976 and Russia was added in the year 1997. While focusing on the financial reporting frameworks, it is important to mobilize and allocate resources so that the financial resources are received and used by all concerned. The financial regulatory system includes different elements such as financial markets, financial instruments, financial intermediation, and financial products so that financial activities are performed adequately. The regulation of the financial reporting system is essential to ensure stability in the economic system. It

will also help in reducing financial crime, promoting consumer protection and maintaining fair competition in the market.

According to Fearnley and Hines (2003), the financial regulatory framework that is adopted by one of the G8 countries, the United Kingdom is diversified in nature. It includes policies and rulings related to commercial banking and retail that focuses on investments banking, debts, savings and payment system. It includes policies that encourage consumers and investors to invest in the capital market in the form of securities so that there is an expansion of businesses. However, due to the financial crisis, the move of the European Commission towards the formation of a single market, and changes in the United Kingdom's domestic laws, reforms have been brought in the financial regulatory framework in the United Kingdom. They further examined that globalization is also one of the major factors that brought changes in the existing regulatory framework. Due to globalization, the functioning of UK companies changed and the firms expanded their subsidiaries in different countries that were not covered under the previous financial regulatory framework. Therefore, the financial regulatory framework in the United Kingdom was reformed in 1990-91. The reform included delisting of the London Stock Exchange from the Listing Authority and there was the formation of the UK Listing Authority (UKLA) as an integral part of the Financial Services Authority (FSA). It also included the establishment of the Accountancy Foundation so that there is the provision of ethical practices, disciplinary procedures, auditing standards in the conduct of commercial and financial activities. Modifications such as limiting remuneration that is paid to directors have been introduced along with new regulations in the Companies Act.

According to Sherman (2009), the regulatory body Federal Reserve (Fed) is responsible to determine and regulate the financial regulatory framework in the United States. Fed is responsible to make a decision related to the printing of currency, distribution, supervising the working of firms including conventional banks and banking groups. Fed also promotes economic growth and stable prices with the help of regulatory bodies such as the Board of Governors, Federal Open Markets Committee, and Reserve banks. Additionally, the Department of the Treasury has been introduced to manage government revenues and recommend fiscal policy. It also

regulates imports and exports rulings, modifies taxation policy, and mints all the United States currency with the help of the Office of the Comptroller of the Currency. Office of Thrift Supervision has been formed that supervises loan activities and manages control of thrifts. The Securities and Exchange Commission has been established as an independent body to regulate and supervise the securities market. The Commission also enforces laws related to security exchange and market and monitors activities related to the exchange of options, stocks, and securities. Federal Deposit Insurance Corporation, Commodities Futures Trading Commission, and National Credit Union Administration have been set up to provide a regulatory framework for financial workings in increasingly complex markets.

According to Novotny-Farkas (2016), Germany is a European Union Member state that has implemented a financial reporting framework as per the EU directives and regulations as per the Directive 2013/36/EU. It also includes the guidelines that are provided under Capital Requirements Directive IV, CRD IV, and Regulation (EU) 575/2013 concerning capital requirements and prudential requirements respectively. The Banking Act (Kreditwesengesetz, KWG) has been introduced to exercise ownership control and supervision, while, Capital Requirements Regulation (CRR) regulates capital adequacy. Additionally, specialized organizations such as payment firms, mortgage banking firms (Pfandbriefbanken), and construction communities (Bausparkassen) have been established as per the Directive (EU) 2015/2366. Specialized organizations provide services related to managing investment funds and the internal market. Single Supervisory Mechanism (SSM) has been established to centralize the prudential monitoring activities of the banking firms. It also includes the active cooperation of the European Central Bank (ECB) and German national central bank that provide directives related to licensing, liquidity, foreign investment requirements, liquidation regimes, and recent trends in the regulation of banks.

Majone (1997) analyzed that the financial regulatory system in Japan, is formed of two important bodies such as legislation and regulatory authorities. While focusing on the legislative body, it provides guidelines and rulings related to monetary activity as per Act No. 59 of 1981, amended Banking Act. It provides directives for the functioning of banks. On the other hand, investment banking activities are also

regulated as per the directives that are provided under Act No. 25 of 1948, as amended (Financial Instruments and Exchange Act). The Act provides rules for the working of the commercial units by limiting their workings in the securities business. Additionally, the Financial Services Agency of Japan (FSA) has been established in Japan which is responsible for maintaining financial system stability in Japan. It also protects the interests of the shareholders, depositors, securities investors, and insurance investors. Other authorities such as the Securities and Exchange Surveillance Commission (SESC), Deposit Insurance Corporation of Japan (DIC), and Bank of Japan (BOJ) have been established in Japan to regulate the working of financial institutions and banking firms.

Ajit *et al.* (-) have found that SEBI was established by the government of India in 1988, but it came into power in 1992. It provides regulation and directives for the working and movement of the commodity market (investors, market intermediaries) and securities in India. IRDAI is a national agency that was formed in 1999, that provides guidelines for all types of insurance companies to function in the public interest. FMC is located in Mumbai and acts as the chief regulatory authority to regulate commodity trading (MCX, NMCE, UCX, etc.) by handling the future market of India. PFRDA was formulated in 2003 by the Indian Government to provide aid and income security to old age people by developing pension funds. It also regulates different other intermediate agencies like Pension Fund Managers to regulate pension money. Veena & Shilpa (2016) examined that Indian Accountancy Standards Board (IASB) has also been established by the accounting body ICAI to formulate the policy documents for accounting purposes. It is formulated and is based on IFRS. It includes the active involvement of the ICAI that provides guidelines for transparent, reliable, and consistent financial activities in India. The adoption of accounting standards helps in recognizing financial events, evaluating financial transactions, presenting financial statements fairly and providing rightful disclosure information. IASB provides directives for help in attaining uniformity in the accounting process by standardizing the recording and accounting methods. It also improves the reliability of financial statements by presenting the true condition of the financial status of the company. It helps the stakeholders to make rightful business decisions regarding investment in the company. IASB is also responsible for giving guidelines for fair accounting and

business practices so that there is the prevention of fraud and accounting manipulations. Assisting auditors is also one of the major functions of the IASB through which it standardizes the accounting procedures that are followed by the firms. It ensures mandatory following of the accounting policies and regulations by the board so that financial statements are evaluated and presented fairly. Establishing comparability is another major objective of IASB which helps in comparing the financial efficacy of different firms. The implementation of guidelines provided by IASB helps in determining managerial accountability by evaluating the performance of the management team of the firm. It helps in maintaining the solvency of the firm by providing consistency and comparability features. However, it has limited scope and creates difficulty in choosing other alternative accounting procedures. For example, in India, stocks can be valued by using LIFO, FIFO and the weighted average method. However, no guidelines have been provided by IASB regarding the selection of the accounting procedure which makes it difficult for the management to choose any one accounting procedure.

2.2 Need for Global Financial Reporting Convergence

Shil *et al.* (2009) explained that there is a need to shorten the gap which exists among different accounting practices followed but for that harmonization is highly needed. He stressed the point that whole accounting needs to be guided by a common language or in other words common standards across the world. He also emphasized that the process of harmonisation has already been started long ago. Adoption of IFRS is the need of the hour because it is going to give a very handsome reward although it will be very challenging to implement it for the corporate world. Convergence will lead to so many other benefits for other areas wherein functioning in the economy will improve automatically as information provided by financial statements prepared based on converged standards will be highly credible. The flow of funds will be quite easy across the globe because the investors would be in a position to compare the investment pattern on a global basis which will also reduce the risk of errors in the judgments made by the investors (Ahmad & Khan (2010); Yadav & Sharma (2012) and Kaur & Kumar (2014)). Vora & Sahoo (2011) emphasized the need for converged standards because of different reasons and

to achieve a different objective. According to them, globalization has forced many countries to open their economies for the outer world and businesses have expanded because of this particular reason. When countries are getting foreign direct investments, it becomes their responsibility to bring more transparency in their dealings particularly in the context of financial statements based on which foreign companies invest in other countries. So need of having common accounting standards emerged to bring transparency to protect the interest of investors which will automatically lead to good corporate governance practices and the Indian industry will become more competitive globally.

Dholakia (2012) explained in his exploratory research by applying the F test, the need for reliable financial information created by accounting. For this purpose, he examined the materiality of the impact of IFRS adoption on the financial position of the company and also examined the effect of the individual standard on shareholders' equity. He also proposed a model wherein the study of professionals can be conducted to assess their acceptability rate of the converged standards because they are the persons who are to implement it in reality. Qu *et al.* (2012) examined the quality improvement of accounting information for investors in the stock market after the implementation of IFRS converged Chinese GAAP in 2007. For this purpose, they examined investors' reactions in pre and post convergence period wherein through regression analysis they found that earning per share relative to book value of equity is a strong factor in explaining return in pre and post convergence period. Therefore, they suggested by this study that data released on earnings by the company is strongly relied upon by the investors of the listed companies to invest in the stock market. This reliance has increased in the post convergence period in China. Ikpefan & Akande (2012) used the content analysis method to explain the embracing of the implementation of IFRS by European nations because of the features involved in IFRS. Because of unique features of uniformity as well as consistency of commonality, the accounting system will move towards generally accepted Accounting Principles (GAAP). He suggested that research is required continuously for convergence of accounting standards through harmonisation. For this purpose, mutual international understanding is utmost required to achieve corporate objectives as well as the building of human capacity because it is the human resource that is to

implement and prepare financial statements in organisations. Palea (2013) examined in his empirical research the effects of IAS/IFRS adoption on financial reporting quality in Europe where the mandatory application of IAS/IFRS was done in 2005. The researcher adopted a value-relevance perspective and focused on the European experience. The findings of this study suggested that mandatory adoption of IAS/IFRS would bring some beneficial effects for Europe as it will improve the quality of reporting practices and hence will enhance the value for the investors. Secondly, the main reason why IFRS were adopted in Europe came to the forefront was accounting practices when followed by different firms, they show different effects according to their institutional setting. So, financial reporting quality was not very good before the adoption of IAS/IFRS in Europe. Kingsley *et al.* (2014) in their study discussed comparative analysis of standards of United Kingdom and United States of America using variables like tangible assets, research and development, inventories, disclosure of accounting policies, consolidated financial statement, depreciation accounting, reporting financial information by segment and accounting for leases and finally concluded that there is a huge improvement in the financial reporting adopted by the UK. Although the USA has not adopted IFRS and it is operating in an isolated situation as compared to the rest of the world yet the USA is also feeling the heat of such isolation and trying to find out ways to develop and introduce further improvements in accounting processes and systems. It is suggested by this study that honest actions, fair disclosures, vision to sustainable development in society should be clubbed with precise accounting standards to be followed by companies to improve upon further. Lee *et al.* (2013) in their empirical study evaluated the effects of IFRS-converged Chinese Accounting Standard (CAS) by comparing the value relevance of financial statements issued before and after 2007 in China. They examined the association between the share price of the organisation and the accounting information in the form of book value and earnings. They concluded that higher association depicts greater value for investors as far as the decision regarding investment is to be taken as investors are the end users of the information of the financial statements. The report covered all Chinese industrial companies listed on the Shanghai and Shenzhen stock exchanges from 2003 to 2009. The full sample comprised 10,017 firm observations. Rakesh & Shilpa (2013) in their empirical study

on the effects of IFRS and financial statements on FDI and Indian Economy based on primary data of selected Directors/ Finance managers of top 100 companies of Bombay Stock Exchange, investment analysts. The researcher concluded in his study that there is a significant relationship between IFRS adoption and FDI in India and those companies which adopt IFRS would be able to generate more funds from foreign sources and also recommended that it is the responsibility of the government and other regulators to ensure that proper training facilities are available within the country along with the requisite material for professionals relating to IFRS and issues related to its convergence and implementation. Sacer (2015) in his empirical study investigated very categorically the position of EU states as far as the applicability of GAAPs is concerned. He has stated that Accounting issues are regulated by an Accounting Act in half of the EU states whereas, for the remaining half, it is regulated by the Companies Act of that state. In the context of local GAAPs, 18 EU member states use local GAAPs whereas seven countries have established rules through other legal acts such as the Companies Act. Ten member states have private bodies for standard settings whereas eleven member states have government bodies to frame standards. The remaining member states reveal specific approaches while setting standards. Professional and government bodies are joint in charge in few countries. Although EU member states have started following IFRS, yet there is much national specificity. Muniraju & Ganesh (2016) observed by a study based on primary and secondary data both, the impact of IFRS convergence on the Indian Corporate sector using secondary data and awareness level of stakeholders towards the implementation of IFRS based on primary data collected from 480 respondents of Bangalore. By using the tool “Systat version 13” on the primary data collected, It was suggested by the researcher that there is a good level of awareness among the stakeholders in understanding IFRS adoption in India yet there is a need for more training of stakeholders towards the IFRS convergence process. Conferences, seminars and like events should be conducted so that awareness can be spread for smoothly transferring the knowledge about IFRS and these should be introduced in the academic curriculum of colleges and universities.

Barodiya & Saxena (2015) and Desai (2016) considered the adoption of converged IFRS as a huge step that will lead to the harmonization of the accounting process but

there is a need, they said, to determine the implications of the same for the accounting profession. They also discussed the applicability, adoption phases and challenges faced by various stakeholders in implementing IFRS in India. These common standards focus on quality and reliability aspects and they would come up with a true and fair presentation of financial information through statements. These statements can prove to be quite useful for potential users and potential investors which will be helpful to work towards the global economy.

Rangappa (2013) observed that the adoption of IFRS across the country was occurring rapidly to bring more quality in financial reporting through the convergence of IFRS or common standards. But there is one major trouble in the context of India that if implemented fully, IFRS would put additional burden and hardships on small and medium enterprises where these converged standards are not that much required.

Sharma & Neha (2014) and Athma & Rajyalaxmi (2013) explained that consistency, comparability and understandability of financial statements and information is the lifeblood in taking investment decisions. Trust and transparency led to the discussion of financial reporting. The professional and regulatory bodies have taken several measures for the smooth convergence of standards within the Indian system. But for this purpose, auditors and accountants should implement it with full vigor and should prepare the financial statements accordingly. Not only this but those who are involved in preparing regulatory mechanisms in the country must ensure a very effective and efficient monitoring system of regulatory compliance with IFRS. Corporate houses need to gear up themselves for continuous updating of the required information.

Beest *et al.* (2009) constructed a tool to assess the quality of reporting about relevance and faithful presentation and few other characteristics like understandability, comparability, verifiability and timeliness and developed a 21-item index using 231 annual reports of the listed companies of US, UK and Dutch stock markets. The results of inter related reliability and internal consistency were sufficiently high but it has several limitations on account of validity.

Bhargava & Shikha (2013) and Sambaru & Kavitha (2014) explained very categorically the factors that are key to economic development. For this, they suggested a sound financial reporting system, good corporate governance, accounting

standards that clearly define route map for preparation of financial statements and well established regulatory system. They further explored that the significance of convergence with IFRS has been increased. In today's world, no country can isolate itself from the rest of the world because it may hamper its development. The country may deprive itself of the developments taking place across the world if they do not follow common accounting practices i.e. IFRS which are based on principles of fair value and introduction of which will not only improve the quality of disclosure for investors but will also lead to comparability and understanding of the financial statements at the global level.

Das (2013) stated that IFRS provided a general guiding platform for preparing financial statements which would be accepted very easily and also understandable globally. He related the adoption of converged IFRS with the employment opportunities available for Indian people as they would get more opportunities now to work as global clients and also their mobility would be increased across the world. He further concluded that IFRS is relatively a new concept of financial reporting and it requires ample time to become familiar with corporate entities.

Vinayagamoorthy (2014) in his study observed that three basic things join together all the organisations across the world; one is Directors and top management; the second one is auditors and the third one is regulators. No doubt, globalization in the past few decades have brought opportunities for investments and cross border trades. This has created fusion among all the companies and countries working on these lines. Hence it has also increased the need for communication and for that language, cultural differences and domestic customs have to be understood and so is the case for traditions used in accounting practices followed in one country.

Jadhav (2014) explained that converged IFRS will help India to boost cross-border mergers and acquisitions. The Researcher further stated the need for harmonizing global accounting standards. He said that it was needed for making easy comparability of international financial statements with Indian companies; multiple reporting would also be eliminated. Harmonization of Accounting Standards would result in a true and fair presentation of financial statements. He further concluded that adoption of IFRS by MNC's would reduce the cost of preparing financial statements

and would also remove the problems faced in consolidating statements which are otherwise quite difficult and takes a lot of effort of the individuals involved in such consolidation.

Srinivasa & Malyadri (2015) explained that Globalization is causing convergence not in one field of accounting only but it has demanded convergence in all the processes of economic, political and social activities. They discussed the adoption procedure of such converged standards as well as the problems and challenges to be faced because of such convergence by the stakeholders. The impact on India has also been studied. They emphasized that effective implementation of such convergence is a prerequisite to improve the functioning of global capital markets and this could be achieved by providing world class information to the investors. To achieve this objective, Companies and businesses will have to disclose the business realities as per the standards and that too without any violation.

Patil (2015) explained that the adoption of IFRS would lead to a greater increase in market liquidity. He studied the implementation procedure of Indian Accounting Standards. He set two hypotheses viz. i. Accounting Standards play a very important role in the financial reporting of Large Companies. ii. The Corporates have to make appropriate changes in their financial reporting & disclosures due to changes in Accounting Standards. He concluded that IFRS converged countries experience qualitative reporting and IFRS would facilitate Indian companies to set targets based on the global business environment, rather than local ones.

2.3 Role of IFRS in the Indian Context

Biscarri & Espinosa (2008) analyzed that the implementation of IFRS will help in reducing the accounting confusion as there will be uniformity in the universal accounting procedure. IFRS provides a globalized set of directives for accounting which will standardize the global accounting procedure and remove discrepancies between different countries. As a result, all the companies that are operating in global markets will get uniform chances to promote themselves and attract foreign investors for the company. Gupta (2012) examined that IFRS are standardized global accounting standards that are provided by the IASB. IFRS provides guidelines through which the investor interests are safeguarded and provides global accounting

standards so that there are unification and standardization of accounting process all over the world. IFRS provides a single set of directions for accounting procedures to all the nations and companies operating in the international arena. As a result, there will be a unification of all the business transactions. It will be highly beneficial for the firms having subsidiary units in different countries as all the units will adopt a single accounting procedure and help in developing annual financial statements easily. The IFRS system also develops internal consistency concerning the preparation of final financial reports which not only reduces the cost of unifying all accounting procedures in different branches but also develops a standardized accounting base for the company and its branches. As a result, it becomes easier for the company to provide precise company records and statements.

D'souza (2020) examined that integrating IFRS with Indian Accounting Standards will help the emerging economy of India to comply and work with the world economies. The integration will also help global investors to get better learning about financial statements and the position of Indian firms. It will help the companies to grow in the international markets and attract more foreign investors to the Indian companies. Bhattacharjee & Islam (2009) analyzed that many countries such as China, South Africa, Singapore, Canada, and Denmark have adopted the convergence method for introducing IFRS into their accounting standards so that there is the standardization of the accounting process as per the international economic settings. Kaneriya (2012) examined that the Indian government also felt that to increase foreign exchange reserves, strengthen economic growth, and enhance technological competencies, It is essential to adopt international accounting procedures. It will help the Indian firms to compete in international markets and provide increased opportunities for cross-border transactions in the form of mergers and acquisitions.

Abhinaya *et al.* (2016) examined that Indian Accounting Standards (AS) were established by the Government of India and notified by the Ministry of Corporate Affairs (MCA). The main purpose of Accounting Standards is to provide guidelines for the conduct of accounting practices and maintaining accounting standards in the country. The guidelines provided by the AS are formulated under the direction of the

Accounting Standards Board of ICAI. Additionally, a convergence method has been adopted to implement International Financial Reporting Standards (IFRS) in AS so that there is standardization of the Indian accounting process. The convergence of IFRS with Indian Accounting Standards will help in meeting the emerging needs of business and accountants to work in the global markets. It includes those several Indian companies which are listed in foreign stock markets and many companies are working to get enlisted in international stock markets. Under such conditions, it becomes essential for the companies to adopt international accounting standards so that they could grow and develop in the global arena.

Daske *et al.* (2008) examined that to exploit and get better learning about IFRS opportunities, the Accounting Standard Board (ASB) of ICAI framed the IFRS task force in the year 2006. In respect to this, a meeting was organized in which the members of the Council of ICAI decided to converge IFRS into Indian Accounting practices which were to come into effect from 1st April 2011. The implementation of IFRS convergence with the Indian Accounting process is to be performed in three phases in which the first phase is to be executed on 1st April 2011, the second phase to be implemented on 1st April 2013, and the third phase to be implemented on 1st April 2014. Lainez & Callao (2000) examined that the implementation of IFRS compliance Indian-AS was notified by the MCA on 22nd January 2011. As a result, due to the convergence of IFRS in Indian-AS, there is the development of two sets of accounting procedures that are to be followed by the Indian firms which are Indian Accounting Standards (Ind-AS) and Indian GAAP under Sec (211C) of the Companies Act. Beria (2010) analyzed that the adoption of IFRS was a landscape change for the Indian financial reporting as essential amendments have been made under a procedure to revise the earlier Indian Accounting Standards and Guidance Notes so that it complies with the International Accounting Standards.

Fathima (2016) examined that to toughen the Indian accounting practices and increase its acceptability in the global markets, the Indian accounting system has been converged with IFRS. The conversion of traditional accounting procedures Generally Accepted Accounting Principles (GAAP) into IFRS will help the commercial units to increase their acceptability in the global market and attract large amounts of foreign

investments and funds. It will also help the Indian companies to expand their functionalities in the international stock exchanges by establishing comparability with international financial statement standards.

Armstrong *et al.* (2008) examined that the adoption of IFRS in the Indian-AS was executed in a three-step process in which in the first phase, the major focus was given on the companies that worked at global levels. It includes 50 NIFTY companies, 30 SENSEX firms that were listed in international stock exchanges. It was mandatory for the companies having a total net worth greater than 1,000 crores as of 1st April 2011 to adopt IFRS based accounting process for commercial purposes. In the second phase, the firms that were having a total net worth of more than 500 crores but less than 1,000 crores were required to adopt IFRS converged accounting process as of 1st April 2013 to perform commercial activities. In the third phase, firms that were having a net worth of 500 crores or less were required to adopt IFRS based accounting process as of 1st April 2014 for commercial purposes.

Veena & Shilpa (2016) examined that the implementation of the IFRS compliance accounting process was not easy for the Indian firms and organizations as they had to face issues related to fair value accounting, taxation, amendments to the existing laws, complexity in adoption, training, and cost problems. While focusing on the fair value accounting issue, the implementation of IFRS based accounting process could bring instability in developing or procuring financial statements. It is because the valuation experts will find it difficult to shift from the traditional methods of accounting process to the IFRS based methods of the accounting process. It will also be difficult to adjust the fair value outcomes of gains and losses to include in the income statements. As a result, the fair value accounting process that was used by the experts would get scuffled under the IFRS reporting system. It will fluctuate the workings of the national and international financial markets and organizations as banks and other institutions will require acceptance for the valuation of assets. On the other hand, the use of IFRS as the accounting standard could bring subjectivity and volatility to the procuring of financial statements. Kaur & Kumar (2014) examined that taxation is another major challenge that is experienced while implementing IFRS based accounting process in the Indian Accounting Process. The convergence of IFRS

within the Indian accounting system will not only change the accounting procedures but also impact the other associated disciplines such as taxation associated with it. The Indian Tax Laws do not comply with the directives that are provided by IFRS based Indian accounting system. Therefore, to implement IFRS compliant accounting system, changes have to be brought in the Indian Tax Rules. The changing of taxation rules was a major challenge faced by Indian policymakers. However, to reduce the challenges, a commission was appointed by the Ministry of Corporate Affairs of the Government of India to recognize the legal and regulatory issues. The commission was also responsible to prepare a roadmap and provide guidelines for implementing IFRS in the Indian accounting process. Additionally, challenges such as amendments to the existing law were also faced while implementing IFRS compliant accounting standards. The Indian firms and organizations perform commercial and business activities as per the guidelines provided by the Companies Act 1956, SEBI regulations, new Companies Act 2013, the insurance laws and regulations, and the banking laws and rulings. The commercial units were required to regulate their accounting process as per the different regulatory bodies which did not have any compliance with IFRS. Therefore, it became a challenge for the companies to override the guidelines provided by the financial reporting agencies and follow the directives provided by IFRS. Suresh (2015) examined that tax laws in different countries are different that gives rise to increasing tax liabilities at the time of convergence of IFRS with the existing accounting system. Therefore, the taxation issues that are faced while implementing IFRS must be resolved so that there is uniformity in the convergence of IFRS with existing accounting systems. Moreover, first of all, big and large companies must be encouraged to adopt transparent accounting procedures based on IFRS in place of old methods of accounting. It will encourage the medium and small firms to adopt the IFRS system and contribute towards unifying the entire accounting system in India. The continuous research process and identifying new methods to increase the acceptability of IFRS in place of old accounting methods will also help in increasing awareness about IFRS. As a result, by increasing the adoption of IFRS by Indian firms, there will be standardization of Indian accounting procedures at the global front which will benefit companies to establish themselves in international markets.

Yadav & Sharma (2012) emphasised that it would be difficult for Indian Corporates to shift from Indian GAAPs to IFRS because we used to prepare our financial statements based on historical cost whereas we will have to shift to Fair value accounting under IFRS which will not be an easy task. Although he has also suggested a remedy for this that training is one big step which can overcome the problem of adoption along with some other measures like introduction of IFRS as a subject in the universities of India. Sen (2013) and Shrivastava *et al.* (2015) explained that although there will be challenges in the adoption of IFRS vis-à-vis will lead to significant changes in the financial statements of the companies which ensure enhanced disclosures leading to greater transparency and comparability. The harmonization process will enhance corporate governance which is very much missing in the Indian corporate sector.

Ikpefan & Akande (2012) analyzed that there was a lack of awareness about international accounting practices among large business units which created difficulty in the general acceptance of IFRS as the standard accounting practice by the companies in India. Moreover, the implementation of IFRS requires changing the entire set of financial reporting practices so that the gap which is present between the IFRS and the Indian accounting process is reduced. However, incorporating change and adopting a new process is a challenging job as traditional users do not cooperate wholeheartedly. There is a training issue regarding the implementation of IFRS which also slows down the adoption of IFRS based accounting procedures by the Indian firms. Due to the lack of proper institutions or training organizations, the right knowledge to implement IFRS could not be gained. There is also an extreme shortage of training faculty or IFRS based courses through which learning about the IFRS accounting process could be attained. As a result, even though the IFRS accounting process has been implemented in India in 2011, its widespread application is missing at national and international levels. Therefore, ICAI has introduced IFRS Training programs to reduce the issues related to implementing IFRS based accounting procedures and provide training to the accountants and auditors. The program is also beneficial to the business houses and professionals wanting to pursue accounting as their career and provide services in commercial firms or educational institutions.

Manju & Mahadevaswamy (2016) examined that the Indian accounting system is different from the IFRS accounting system. Therefore, Companies have to make amendments in their existing accounting systems to comply with the directions given by the IFRS accounting procedure. It includes modifying information systems so that there is designing and capturing of new accounting needs based on IFRS. There is a lot of difference between the outcomes received by using IFRS and Indian GAAP process. Therefore, the businesses have to re-negotiate their contracts by changing their terms and conditions so that IFRS based compliance could be gained in the management compensation plans. Sen (2013) analyzed that due to complexity in IFRS adoption, the widespread implementation by the Indian businesses gets restricted. The major risk of merging GAAP and IFRS is a highly complex process associated with dealing with present value and fair value. The IFRS framework treats expenses such as underwriting commission paid on issue of debentures, and premium payable on redemption of debentures differently as compared to the GAAP process of treatment. Moreover, the process related to the evaluation of discounts allowed on the issue of debentures is different in IFRS and GAAP. Thus, it creates a gap between the accounting procedures in IFRS and GAAP which leads to confusion and complexity at the time of converting the GAAP accounting process into IFRS. High amounts of risks are found to be a major constraint to the adoption of IFRS. The implementation of IFRS includes technical complications and manual changes so that modifications could be made in the GAAP as per IFRS. It requires a lot of time and management support so that the changes are incorporated adequately.

Vinayagamoorthy (2014) explained the slow and steady progress in the process of convergence of IFRS into the Indian system. According to him, all the discussion and debates for and against convergence and adoption of these standards are based on perceptions only because of lack of impact study. We are unable to reach the impact of adoption and it varies from country to country. Also, it differs because there is a gap in local GAAPs followed in various countries. So there is a need to assess the impact of the implementation of such adoption and it should be country specific.

Srivastava & Patel (2009) analyzed that time is also an important factor that is to be considered while implementing IFRS. For example, countries such as the European

Union and Australia took almost a year or more than a year to implement IFRS into their accounting processes. These countries provided their guidelines, interpretations, and regulatory guidelines two to three years before the final implementation deadline. It helped them to adopt a step-by-step procedure to incorporate changes and systemize the entire accounting process. However, India took a long time to implement IFRS or provide guidelines for its implementation within the Indian firms. The ICAI which is the authorized accounting standard unit delayed the IFRS project that created confusion in the standard implementation of IFRS by the Indian companies. Moreover, the high cost associated with incorporating IFRS related change also hinders its adoption within the Indian business community. The estimated cost of transforming GAAP (Indian accounting system) to IFRS costs around 30 lakh to one crore with the active involvement of 16 internal and 3 external trained staff. It was also analyzed that about 50% of the Indian firms have to adopt an entirely new set of Information Technology systems to work as per the guidelines provided by IFRS and only 20% of firms can work with their previous IT systems by incorporating few technical changes. The firms are also required to bear cost related to reporting costs, auditing fees, and system changes that increases the accounting costs of the company and restricts the adoption of IFRS on a large scale.

Sharma & Vaja (2013) examined that it is essential to adopt certain measures such as providing evidence of benefits of using IFRS must be provided by the Accounting authority so that the trust of the Indian businesses develop in implementing IFRS system. It includes reviewing the GAAP of different countries which have implemented IFRS along with benefits received by them so that the difference between the GAAP and IFRS and the benefits of implementing IFRS is better understood by Indian firms. The government must also introduce IFRS based curriculum and courses in the educational institutions and accounting instructional organizations so that IFRS awareness is spread over the entire area. It will also help to enhance the skills and abilities of the accountants and auditors to comply with IFRS within Indian accounting systems. Additionally, appropriate steps must be taken to reduce the discrepancies related to fair value and carrying value so that there is standardization in the entire accounting process and the gap that exists between the GAAP and IFRS gets eliminated.

2.4 Financial Transgression and its Prevalence in India

Financial Transgression is a wide-range of illegal acts and illegitimate practices involving misrepresentation, intentional deception (Bhasin (2013) and Majumdar(2012)). The misconduct can be in the form of the wrong presentation of financial statements, misappropriation of accounts, fraudulent corporate reporting and misusing of funds. All these unethical financial activities negatively impact the interests of the investors, stakeholders, and government agencies and reduce the trust of common people in working for a company. Thus, financial transgression is considered as a sinful or illegal activity that creates losses to the firm, stakeholders, and all the associated clients, employees, and customers. The incidence of financial transgression activities has increased over the years and causes a rising concern to the governing authorities of several countries to exercise control over the financial fraudulent activities. Aggarwal & Dhiman (2019) explained that Financial Transgression is the act that is against the rule of law which results in catastrophe for the Corporate Sector, Regulatory Authority and economy of the concerned state. The act may include misappropriation of funds, accounts, false statements, false reporting to deceit the stakeholders, regulatory authority and government. There is a dire need in India to make changes in various regulations continuously as well as to take stringent action against the culprits. To avoid or minimize such cases of financial transgression, the regulators and Government should always be alert and should take immediate action as soon as they come across any such case.

Haron *et al.* (2013) examined that there has been a significant rise in financial fraudulent activities in the form of accounting fraud, Antitrust Law Infringement, Asset misappropriation, cybercrime, customer fraud, tax fraud, and money laundering. It also includes other frauds such as human resource fraud, deceptive business practices, unauthorized trading, and procurement fraud. The survey also provided that financial transgression was experienced by firms in all sectors such as 18% customer fraud in the consumer market, 16% asset misappropriation in the energy and utility sector, and 14% accounting and statement fraud in financial services. It was also found that 17% of cybercrime was experienced in the government and public sector, 13% accounting, and financial fraud was recorded in healthcare industries, and 21%

of asset misappropriation was recorded in the manufacturing industry. The survey revealed that the fraudulent activities hit the firm from all angles such as 39% from external perpetrators, 37% from internal perpetrators, and 20% from collaboration from external and internal perpetrators. Thus, it can be said that financial transgression has become an important aspect to be taken into consideration so that the losses that are faced by the companies due to fraudulent activities decrease or cease to exist. Kukreja & Brown (2016) in their research of study of Accounting fraud of \$34 million at KOSS, an American company, found that it is not always big organizations that are prone to frauds but even SMEs like KOSS can also become a victim of such things and hence they should be more vigilant regarding internal controls. Auditors were also found to be failed in applying auditing standards along with deliberate ignorance of adopting the latest software with the help of which manipulations in accounting can be stopped. This study emphasizes a robust system of internal controls and proper ethics and code of conduct even for a small organization.

Kukreja & Gupta (2016) discussed the case study of fraud that occurred at Tesco, the supermarket giant in the UK in 2014 which remained undetected for three years and whose magnitude was £263 million, why the fraud remained undetected over several years, which resulted in catastrophic consequences for both Tesco and its stakeholders. This fraud was committed just to meet the competition and hence financial statements were overstated in terms of profits. The outcome of this case study shows the over ambitiousness of top management which ultimately landed in suspension and replacement with a new team. Even Warren Buffet conceded that his investment in Tesco was a huge mistake. Finally, the authors also concluded that all financial frauds start small and then grow bigger and bigger until they cause significant harm to the investors and other stakeholders.

Pillai *et al.* (2014) discussed the cases of insider trading of the Reebok-Adidas merger and the Rajat Gupta Case which resulted in huge losses for the investors and suggested strong regulatory measures through SEBI along with a good internal governance code to avoid such cases.

Muniraju & Ganesh (2016) examined that the adoption of IFRS compliance GAAP was not easy for the Indian firms as they had to face issues related to cost, lack of training, and risks. Thus, to reduce the insecurities associated with the implementation of the IFRS, the stakeholders and companies were provided training and education by ICAI. The major reforms such as the introduction of IFRS into the Indian accounting process were necessary to reduce the onset of fraudulent financial cases as financial transgression incidents negatively impacted the economic stability of the country. For example, the financial transgression case such as the Satyam fraud not only impacted the Indian economic workings but also negatively influenced future foreign investment flows within the Indian economic sector. The emergence of the Satyam fraud case also highlighted the issues and loopholes that were present in the then Indian accounting standards and intensified the need for regulating or modifying the Indian accounting processes.

Hemraj (2004) examined that the adoption of the IFRS accounting process within the Indian accounting process will help in strengthening the Indian financial reporting system and reduce the loopholes present in the Indian accounting practices. Before the occurrence of the Harshad Mehta case fraud case, the regulatory body SEBI was not given any statutory powers to regulate the workings of the stock market at regular intervals. However, in 1992 statutory powers were given to SEBI and additional governance authority was given in the year 1995 to regulate the workings of the stock market in India. Thus, by acquiring power, SEBI suspended many brokers, directors, and office bearers on account of finding them guilty of insider trading infringement. Additionally, SEBI also restricted the channels of the brokers through which they exercised control over the stock market. On the other hand, After the Satyam scam, major reforms were introduced in the Indian accounting practices in the form of a convergence of IFRS with Indian accounting practices so that there was the standardization of the entire accounting procedure. Additionally, reforms were also made in the whistle blowing and Class action litigation so that the corporate financial transgression incidents can be reduced. It included obligatory replacement of audit firms every ten years and imposition of criminal accountability on auditors so that laws related to the financial reporting process are strengthened. Chandok (2015) discussed three different cases of Corporate Financial Transgression of

Harshad Mehta, Satyam and Sahara and the increasing role of SEBI with every passing case.

Beest *et al.* (2009) constructed a tool to assess the quality of reporting about relevance and faithful presentation and few other characteristics like understandability, comparability, verifiability and timeliness and developed a 21-item index using 231 annual reports of the listed companies of US, UK and Dutch stock markets. The results of inter related reliability and internal consistency were sufficiently high but it has several limitations on account of validity.

Aggarwal & Dhiman (2019) examined major loopholes in the Indian and USA regulatory system that led to the occurrence of cases of financial transgression. Although, the USA has put some brakes on the cases of financial transgression, it could not fully eliminate them. The reasons for such cases revealed are understating expenses, overstating the value of corporate assets or underreporting the existence of liabilities. Ethical issues in accounting are ignored by the use of creative accounting. The study further revealed that India has not learnt a lesson from US corporate failures. A need was shown through this study of fixation of responsibility on independent professionals and use of Indian Accounting Standards with ethics and code of ethics should be an integral part of professionals. Iyer & Ravindran (2013) explained ethical aspects of accounting standards and the necessity for formulating a framework for ethical accounting regulations in Indian MSME by stratified cluster sampling technique based on 720 accounting professionals employed in MSMEs. The researchers employed ANOVA and stated that economic crimes and accounting scams were increasing drastically which required having Framework for Ethical Accounting Regulations (FEAR) in MSME for better transparency. The researchers concluded that adopting FEAR will result in the social economic welfare of the economy. They further concluded that better ethical regulations due to FEAR adoption will help new entrepreneurs to start a business without fear. Parmar (2015) has discussed in her paper how ethical issues in accounting are ignored by underreporting income, falsifying documents and by use of creative accounting. She emphasised the use of Indian Accounting Standards with ethics and concluded that the code of ethics should be an integral part of professionals. Gupta & Gupta (2015) in

their study conducted interviews of the professionals, management, government officials, investors and authorities with vast experience and examined their viewpoints on corporate scams in India and their consequences for the business and economy and by structured questionnaire technique from 346 sample companies and by doing case studies. Researchers found that there is an utmost necessity that the role of auditors should be redefined. Frauds are not being reported and also no fraud prevention policy is publicized. Members of the board are not professional and financial institutions including banks are ineffective and are not following the wisdom to handle the matters relating to scams. The researchers finally suggested that IFRS should be adopted in a true sense and the responsibility of audit firms should be fixed.

Wadhwa & Pal (2012) discussed the various scams which happened in India and highlighted the point that our banking, insurance and police agencies are not equipped with modern techniques to stop these scams. He discussed various scams namely 2G Spectrum scam, Commonwealth Games scam, Satyam scam, The fodder scam, The Hawala scandal, Harshad Mehta case, Ketan Parekh Stock Market Scam along with the quantum of loss in those scams and urged the need of implementing the use of new techniques to stop these scams like Forensic Accounting. Mishra (2014) and Konar & Aiyar (--) also discussed the importance of Forensic Accounting after discussing the various cases of Financial Transgression happening across the world. Rao (--) has explained the 14 different scams and their causes in 5 major categories: Personal Ethics, Decision Making Processes, Organizational Culture, Unrealistic Performance Goals, and undesirable Leadership. He emphasised the need for a code of ethics and authority to implement ethics in the companies. . Pushpa and Deepak (--) in their study discussed the NSEL scam of the commodity market and raised the issues of failures and weaknesses of the financial market environment and urged the need for a strong and efficient financial market for the growth of the same.

Watrin *et al.* (2019) analyzed that International Financial Reporting Interpretations Committee (IFRIC) is responsible for identifying uncertainties in the accounting procedures and provides specifications related to standards that are to be maintained while preparing financial statements. IFRIC acts as an investigatory body that explores the uncertainties related to reporting standards and interprets the rules so that

modifications could be brought in the existing rulings and new guidelines could be proposed against them. Sarbanes–Oxley Act of 2002 (SOX) has been introduced by the United States to reduce the corporate financial transgression cases in the United States. Additionally, other regulatory bodies such as the Federal Bureau of Investigation (FBI), the US Attorney’s Office (USAO), Commodity Futures Trading Commission (CFTC), and SEC have been established by the governing body in the United States to provide rulings for appropriate financial accounting and reporting process.

Bhasin (2010) by using the case study method and by developing his model as a ‘working’ method examined how far Reliance Industries Limited fulfilled the compliance process of Corporate Governance standards, for which the researcher used a ‘point-value-system’. The company has shown ‘very good’ performance, with an overall score of 85 points as various parameters which were required for the compliance of corporate governance mechanism. Although clause 49 of SEBI made it mandatory to follow corporate governance norms but still Reliance was very effective in implementing and following those standards and it can be said that they are protecting the interest of their investors and thereby gaining goodwill. Bajpai & Mehta (2014) evaluated the Corporate Governance norms by taking certain parameters of two Corporate giants ITC and ONGC by applying the Chi Square test and found that both the companies are having only one person as Chairman and Managing Directors whereas they suggested that both these positions should be separated and should be assigned to two different individuals to avoid conflict of interest.

Lemus (2014) discussed in his research paper the great collapse of one of the biggest corporations i.e. Enron and its effects on the financial markets of the USA. It was a clear case of cheating with its shareholders by the company by reporting wrong profits, most of which were not earned. This scam compelled US regulatory body Securities and Exchange Commission (SEC) to adopt the Sarbanes-Oxley Act of 2002, wherein specific rules and regulations were defined by introducing 11 chapters to give a new shape to the accounting system. Section 404 under the Sarbanes-Oxley Act of 2002 requires management and independent auditors to prepare their reports

with accuracy and reliability even if it is unqualified. The researcher has stated that the world of accounting is mainly dominated by the top four auditing firms of the world namely (1). Price water house Coopers (PwC), (2). Deloitte & Touche (DT), (3). Ernst & Young (EY) and (4). KPMG represent a combined income of \$80 billion. But these big firms were involved in not detecting the biggest frauds or scams that happened in the companies where they acted as the auditors. The conditions set by Sarbanes-Oxley (SOX) impacted these professional auditing firms wherein responsibility is fixed for such auditors.

Mawutor (2014) explained in this research paper the failure of Lehman Brothers which hit the financial industry in the United States in 2008. The researcher has found multiple factors that caused the failure of Lehman Bros. Wrong and unethical accounting practices, unethical management practices, unnecessary and over investments in risky and unsecured ventures and laxity on the part of regulators are found to be the main reasons for the failure. Even external auditors did not play their part and did not fulfill their responsibility in detecting any of the malpractices being followed in Lehman Bros. The researcher finally concluded that Policymakers such as SEC in the USA should take initiative to make such policies that are strict so that failures like Lehmann Bros will not occur again.

Dhanaiah & Prasad (2016) discussed various frauds in the Indian financial markets starting from the Harshad Mehta (1992) to Saradha Group Financial Scandal (2013). The researcher further discussed the positivity that occurred due to the occurrence of these scams in the form of regulatory reforms and the formation and strengthening of the institutions. Arrawatia & Pandey (2016) explained the Shardha chit fund scam, a Ponzi scheme of West Bengal that looted the hard earned money of several innocent investors. He also discussed the modus operandi of such schemes. Gochhait & Tripathy (2015) explained the reason for occurrence of chit fund scams like shardha chit fund scam that is regulatory overlapping and confusion and the highest regulatory bodies to take note of it. Due to fraudulent cases such as Punjab and Maharashtra Cooperative (PMC) Bank fraud (under-reporting of Non-Performing Assets), the Indian investors suffered severe losses.

2.5 Factors Leading to Transgression and measures to tackle

Bhagat & Bolton (2008) analyzed that developing and developed countries both are facing issues relating to financial transgressions as it causes harm to both, government and the common population. There are several ways in which financial transgression activities are performed recording a fake income, recording income from backdates or registering fake income that has never been received by the firm or recording backdate revenue in the current accounting Statements. The misappropriation of the financial accounts not only hampers the working of the firm but also creates hindrances in future business operations.

Bhasin (2013) discussed how fraud can be committed in any of the companies and who commits the fraud, by discussing a detailed case study of Satyam computers and elaborated on consequences of fraudulent corporate reporting wherein it was shown that books were manipulated to the maximum possible extent because of loose practices followed in implementing standards. The researcher used secondary data to prove the above points. Finally, he has concluded that cases of financial transgression are not only bad for a company only but the whole industry and the country as well. A fraud acts as a big threat for foreign direct investments of a company that is entirely based on the goodwill, a country generates over a long period with its sincere and honest actions in the economy. It may also pose threat to a booming sector of our country and the outsourcing sector. He also urged the need for strong Corporate Governance.

Lohana (2013) discussed the various scams that happened in India and outside India. This study has revealed that these scams were committed by understating expenses, overstating the value of corporate assets or underreporting the existence of liabilities. Finally, the researcher concluded with the need for new techniques to add credibility to financial statements.

Cuomo *et al.* (2016) examined that it is essential to introduce stringent policies and regulations so that the failure in the corporate governance practices is identified and resolved. For example, due to the Enron Corporation scandal, there was an emergence of a new act namely the Sarbanes Oxley Act, 2002 so that the entire accounting practices are reformed in the United States. Due to the Lehmann Brothers crisis, there

was the revelation of unethical accounting and management practices in the United States. Thus, it is essential to introduce a stringent accounting process so that there is proper regulation of financial reporting practices.

Usman (2017) analyzed that good corporate governance is utmost required both for developing and developed countries to achieve economic goals. He also explained that importance of corporate governance has increased in India after the occurrence of Satyam scam. Khurana (2016) discussed the importance of Corporate Governance by discussing the case study of Satyam Computers and urged the need of implementing Corporate Governance in a full-fledged way. Inamdar and Nagendra (2017) explained through regression analysis that the presence of women on board had a significant impact on corporate reputation and also a good corporate reputation is much desirable to make campaigns like “Make in India” successful.

Malusare (2013) discussed that a body of forensic auditors should be created which would serve their interests and regulate the activities just like any other profession so that cases of corporate financial transgression will not happen or at least they may be minimized for the overall growth of the country and economy

Albaqali and Kukreja (2017) identified and assessed several factors that are expected to safeguard Auditor independence and objectivity to mitigate the potential threats faced by the audit profession worldwide. This study emphasized audit regulations to achieve the task of enhancing auditor independence and recommended focusing to oversee work of auditors and audit forms for this purpose they recommended that an audit quality board should be formed which is independent. They also suggested the concept of joint audit practice to be adopted by the listed companies.

Alawi *et al.* (2018) identified through their research the factors which lay emphasis on the expectation gap which exist between auditors and users of financial statements in the Kingdom of Bahrain. These factors are the efforts of auditors, the skills of auditors, the knowledge of the public about the audit profession and the users’ needs from auditors. Also to mitigate the gap training of audit staff is highly recommended by the researchers. This will help in to go extra mile in conducting the audit as well as to fill the audit gap. Furthermore, the auditors should keep themselves updated about the latest frauds and the best audit practices.

2.6 Action Taken by Regulatory Authorities

Khuntia (2014) examined that to reduce the inappropriate financial reporting activities, the Indian government has introduced regulations such as the RBI Act 1934, FEMA 1999, and the Banking Regulation Act 1949 (BR Act). Additionally, guidelines are also provided by ICAI so that there is standardization in the financial reporting practices. It includes modification in the Companies Act, 2013 so that the anti-fraud mechanism is developed to fraudulent activities that are faced by businesses. Reforms have been included in the working of SEBI so that stock market workings are regulated. Moreover, SEBI (Issue of Capital Disclosure Requirements) Regulation, 2009 and Companies Act 2013 came with stringent norms to reduce loopholes in the financial regulation provisions.

Valecha and Xalxo (--) discussed the importance of the Bankruptcy code 2016 which will not only remove the flaws of the existing regime of legislation relating to bankruptcy but will also ensure the speedy settlement of cases pertaining to bankruptcy. This will result in the efficiency of the regulatory system and the growth of the corporate world in India.

Ponduri *et al.* (2014) discussed various corporate frauds, the genesis of the frauds, people responsible for various frauds. He elaborated that for the prevention of fraud, there are many codes implemented and many committees were formed by regulatory bodies to prevent frauds in those countries, where scams occurred. Cadbury Code in the United Kingdom led to the beginning of many other codes on corporate governance in other countries. Codes serve as a torchlight in the dark rooms of frauds that may be committed by companies. Many committees were formed to do the same thing in India e.g. Kumar Manglam Birla Committee and Narayan Murthy Committee were established by SEBI to work upon the measures to be adopted for corporate governance in India after seeing the pathetic condition of Worldcom, Enron and other corporate catastrophes who failed because of violation of corporate governance norms along with many other violations.

Sharma (2013) examined critically through his empirical study the corporate governance norms followed in the Auto sector of India. The study shows the improvement in following corporate governance norms in this sector which can be

associated with the fact that it is mandatory after 31st December 2005 to follow such standards and the auto sector has fulfilled its responsibility to a large extent. In addition, more compliance with corporate governance increased the market credibility of the company that also encouraged companies to become more transparent and accountable towards their stakeholders.

Bhasin (2013) analyzed that a regulatory framework has been established by India in the form of the SEBI to strengthen the appropriate financial reporting activities. The Companies Act, 1956 has been modified in 2013 so that the corporate governance practices are performed authentically and legally. Thus, SEBI and Companies Act 2013 provides adequate corporate governance guidelines so that accounting standards are maintained and financial statements are prepared as true and fair accounting practices. Additionally, to reduce the non-uniformity with global accounting practices, international accounting standards are adopted by the Government of India. It includes introducing the guidelines that are provided by the International Accounting Standards Board (IASB) in the form of International Financial Reporting Standards (IFRS). Thus, IFRS is known as the global standard accounting process that is adopted by about 110 countries such as Canada, Australia, India and others to standardize their accounting and financial reporting processes. IFRS has been adopted by converging it with Indian Accounting Standards. As per the directives given by the Ministry of Corporate Affairs, IFRS compliant accounting process is to be compulsorily adopted by all listed & unlisted entities based on certain criteria in India. The adoption of IFRS based accounting system will help in standardizing the Indian accounting process and reduce the risks associated with wrongful accounting practices.

Pasha *et al.* (2012) found in their study that the regulatory body SEBI has done a splendid job by taking care of all the complaints filed in the past with it and resolving them. Also, SEBI was empowered on different occasions with more and more statutory powers but there are still many limitations which are found with this body like pre occupied with day to day workings and over regulations. The role suggested for SEBI is more supervisory and visionary.

Muniraju & Ganesh (2016) examined that Serious Fraud Investigation Office (SFIO) has been established by the government of India under the Companies Act 2013 so that there is an investigation of financial reporting by the companies appropriately. Additionally, other financial regulations such as SEBI (LODR) Regulation, 2015, and SEBI (Prohibition for insider trading) regulation, 2015 have been introduced to increase clarity and transparency in the accounting process in the Indian firms. The regulatory bodies have been formed to reduce the financial transgression cases such as the NSEL scam. It also led to the formation of the Forwarding market commission (FMC) and Arvind Mayaram panel by the government so that assessment of the company workings can be done in a transparent manner. Additionally, the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI Act 2002) has also been introduced by the Indian government and replaced with the amendment bill 2016. The new amendment bill, 2016 includes stringent provisions so that the accounting practices are standardized in India.

Desai (2016) analyzed that in India, SEBI and Companies Act form the foundation stone for regulating the accounting systems and standards. However, despite the stringent workings of the regulatory bodies, several cases of financial transgression have been observed in the Indian commercial sector since 1991. Therefore, it has become essential to introduce reforms in the working of the regulatory bodies so that the financial reporting system is strengthened in India

2.7 Research Gap

As per the above discussed literature review, it can be said that financial reporting frameworks are an important aspect for the conduct of the accounting process as it helps in mobilization and allocation of resources. Due to the appropriate allocation of the financial resources, the funds and revenues are received and used by all uniformly. The financial regulatory system includes different elements such as financial markets, financial instruments, financial intermediation, and financial products so that financial activities are performed efficiently and effectively. However, facts related to varied types of financial reporting frameworks used in different G8 countries and India were short of discussion by researchers. It was found that studies about the International

Financial Reporting Practices have been conducted by researchers much earlier but specific research related to the G8 countries and India was missing in the academic circle.

The study also examined the facts related to the meaning, concept and factors that result in Financial Transgression. It was found that there have been studies related to the prevalence of corporate financial transgressions but the specific studies related to G8 countries and India have been limited. It was found that there have been previous studies related to the global financial practices and the regulatory framework conducive to avoid corporate financial transgression but specific studies related to G8 countries and India have been very much limited. Thus, it can be said that the current research identified facts related to global financial reporting convergence, financial transgression, and regulatory framework concerning India and selected G8 Countries. It has been found that IFRS has been considered as the global accounting procedure by the G8 countries and India so that discrepancies that exist in the prevailing accounting system of the countries are reduced. The adoption of IFRS will also help in standardizing the entire accounting process around the world so that there will be a reduction in corporate financial transgression globally.

2.8 Research Questions

- What is the need for global financial reporting convergence in India and selected G8 countries?
- What are the factors that lead to corporate financial transgression in India and the selected G8 countries?
- What are the practices and amendments integrated into the regulatory framework of India to prevent corporate financial transgression?
- Whether amendments made in the regulatory framework are sufficient or not to prevent corporate financial transgression in India?
- What more should be done by India in the future to meet the future challenges of corporate financial transgression?

CHAPTER-3
RESEARCH
METHODOLOGY

This chapter deals with the research methodology adopted for the conduct of the present study. Section 3.1 presents the need for the study. Section 3.2 tells us about the significance of this study. Section 3.3 reveals the objectives of the study. Section 3.4 shows the research design and methodology of the study. Section 3.5 shows the data analysis. Section 3.6 presents the limitations of the present study. The details are given as:

3.1 Need of the study

Cases of financial transgression occur only when there is something wrong with the system or in other words, gaps are found in the system. These gaps do not appear on the surface many times, yet such cases of financial transgression occur. But many times, they are visible. In this context, no country is untouched, be it in the category of developed or that developing. All have faced a crisis due to cases of financial transgression resulted in huge losses to the government revenue vis a vis loss of reputation of the companies and regulatory framework of the country. There are so many examples that can be quoted to prove this fact. From the Harshad Mehta scam in India to Worldcom Scam in the USA, there is a queue of examples of such frauds and scams.

At present, across the world, firms are using IFRS to report their financial results. The adoption of global reporting practices by Indian companies makes their comparison with global competitors easy. Global financial reporting practices provide major help in achieving uniformity in accounting practices. Ministry of Corporate Affairs in its notification dated 16th February 2015 clarified that global financial reporting practices will be implemented in a phased manner on Indian Companies over a period of three years starting from April 1, 2015. So, there is a hope that countries across the world will now have common standards while making financial statements and reporting the results.

Therefore, this study is an attempt to explain the loopholes in the regulatory system and global financial reporting practices of the selected countries. It will help us not only to know the reasons for the change in the regulatory system but also to find out and fill the gaps in the previous system which lead to financial scams. This study also

focused on the comparison between pre and post disclosure practices in the prevention of financial transgression and provided suggestions for the refinement of global reporting practices to prevent future financial transgression.

A qualitative change is expected from this study in the preparation of accounting reports that will not only help the investors in gaining strength to invest in India but also across the world. Thereby, it will empower the investors which will be beneficial for the entire world and economies.

3.2 Significance of Study

The study is necessary to be carried out so that valuable information related to global financial reporting convergence, financial transgression and regulatory framework (with special reference to India and selected G8 countries) could be gained. India and selected G8 countries (the United Kingdom, the United States, Germany & Japan are facing increasing concerns related to financial transgressions in their respective countries. The fraudulent activities not only cause financial harm to the organisation but also reduces its capacity to deal with the domestic and international markets. Therefore, the present study identifies the financial regulatory system prevailing in the different countries (India and selected G8 countries) and determines the various gaps that exist in the current financial reporting practices and regulatory framework that cause financial transgression. The study examines that financial transgression activities are widely present in every country and hampering the monetary working of the organisations and the economy. For example, in Japan, senior citizens are highly targeted by scammers to perform fraudulent activities. It gives rise to the necessity for implementing stringent policies and practices so that financial transgression activities are entirely prevented.

3.3 Research Objectives

- To know the need for global financial reporting convergence in selected countries.
- To explore the gaps in the financial reporting practices and regulatory framework which lead to corporate financial transgression in selected countries.

- To compare pre-convergence and post-convergence financial reporting practices and amendments made in the regulatory framework to prevent corporate financial transgression in India.
- To explore the further scope for the refinement of global financial reporting practices and regulatory framework to prevent future corporate financial transgression in India.

3.4 Research Design and Methodology

3.4.1 Research Design

Descriptive Research Design has been chosen for these case studies as a descriptive research design helps in describing the observation made out of the social perspectives. Moreover, it enables the researchers to aim accurately and systematically, basically for describing a population, situation, or phenomenon.

3.4.2 Sample Size and Period of study

The era of financial transgression began in the 1990s in India and outside India. In India, it started from stock market kingpin Harshad Mehta in 1991. Even in the USA, the major financial scams occurred in the late '90s. So, the period starting from 1991 till date has been selected purposely and to see the changes that were made in the regulatory framework in India.

Table 3.1: Projected GDP based on Purchasing Power Parity (PPP) for 2017

Country	GDP (ppp) \$ bn (2017)	Share in world GDP	Rank
United States	19,417.144	15.3	2
Japan	5,420.228	4.28	4
Germany	4,134.668	3.26	5
United kingdom	2,905.392	2.29	9
India	9,489.302	7.49	3

Source: International Monetary Fund World Economic Outlook (April - 2017)

As many as five countries are selected for the study out of which 4 are highly industrialized nations of G8 countries with the highest projected GDPs along with India which is at number 3 in terms of projected GDP based on purchasing power parity (PPP) for 2017.

3.4.3 Sampling Technique

Purposive sampling technique has been adopted to achieve the objectives of this study where samples are chosen deliberately to come to a conclusion.

3.4.4 Data Collection

The data has been collected from secondary sources like research articles, books, journals of ICAI, Annual Reports of various Companies, Newspaper articles and various websites. This process has provided various details on the frauds happening in India and outside India, such as Germany, Japan, USA, and UK.

3.5 Data Analysis

The following research has been conducted using secondary data, various facts and figures are covered under the study. Tables describing the frauds that happened in India and other countries are used for analysis. Content analysis has been done in this study to understand the various case studies with the help of extensive literature survey and also the Atlas Ti software has been applied on the thesis to prove the objectives. Codes, Code Groups and meaning of codes are given in Appendix 11 based on the most relevant words used for the study. These have been developed over the period after extensive literature review.

3.6 Limitations of the study

Although, data of five countries is compiled and India is compared with rest of four countries but information was not fully available for all the countries. So whatever sources were available, are used and conclusions are drawn. Although sources used are mentioned in the links shown in the thesis at the end.

Five countries are considered for this study. The scope may be enlarged by taking more countries.

CHAPTER-4
ANALYSIS
AND
INTERPRETATION

This chapter shows the data analysis. The data so collected is being interpreted in this chapter as per the four objectives of the study. In this section, the data for various countries namely India, United States, UK, Japan and Germany have been analyzed and interpreted by using Content Analysis with the help of Atlas Ti Software.

4.1 Objective 1: To Know the Need for Global Financial Reporting Convergence in Selected Countries

An extensive literature review is conducted and content analysis technique is adopted with the help of Atlas Ti software to achieve the first objective. In today's competitive world, modern economics happens to be between cross border transactions. It has been observed that investors always seek diversification and also look for opportunities across the world, while various companies raise capital and undertake a new transaction to carry international operations. Further, it was also observed that there were so many problems that were witnessed between the border activities and those were very complicated, so every country thought of having its own accounting standard, as this will help in maintaining a systematic transaction between the countries. The use of the accounting standards benefitted the country in maintaining the statements and also helped in making a decision but started creating problems with the expansion of global business. The problems and hurdles of the accounting world can easily be overcome on the platform of International Financial Reporting Standards (IFRS) because in IFRS, the rules and regulations which are followed, will be useful for the organisations in maintaining the transparency vis-à-vis consistency and comparability for the world. IFRS standards address these kinds of challenges and problems in a very systematic way. So basically the global financial reporting converge delineates more about establishing goals with high-quality accounting standards used in international countries, simultaneously also sketches about the efforts that are set towards achieving goals.

IFRS is designed basically to bring regularity to the accounting standard practiced in the industries, to help the business, to benefit the investors, and to provide precise and accurate information regarding the financial accounting standards between the companies, as this helps in the easy decision-making process. Moreover, the main aim of the IFRS is to create a benchmark for bringing transparency, accountability, and

efficiency in the financial markets not only in few areas but around the world. Companies achieve numerous benefits from IFRS because investors always look for such companies where it maintains transparency. IFRS would not only help in saving money on duplicative accounting work but will also help in comparing and analyzing costs amongst companies across the world. Also, IFRS have a great impact on the components of a balance sheet and how they are reported. Further, many companies follow these international financial reporting standards, especially stock markets in the world also follow the filing of financial reports which are IFRS compliant. Lastly, focusing on how needs are fulfilled by using their international financial reporting standard (IFRS).

Firstly, IFRS helps in serving the public interest by ensuring truthfulness, financial sustainability and growth internationally and hence it helps investors to take economic decisions very smoothly. IFRS standards help in strengthening the accountability of the companies by reducing the gap between different companies, As such if the major gaps are reduced, the mutual trust of the companies is built automatically. IFRS standards even explore the information that is required by the companies. Moreover, this is such a platform where the financial statements can be compared globally, as this plays a vital role in regulating the world. Lastly, the IFRS standard helps investors to identify and to find out the various opportunities across the world and meet the challenges in investing. In addition, thus it helps as a matter of fact, in improving capital allocation and hence these are the trusted accounting standards.

Moreover, considering IFRS into various sectors such as a bank, business and many other sectors have helped in gaining success. The International Financial Reporting Standards are very much essential for the development and growth of accounting activities because it not only provides the guidelines for the presentation of financial statements but also accepted across the world and economies. Therefore, adoption and convergence of these standards were required to gain qualitative information from the financial statements and help in gaining the convergence of these financial reports. So, the report will not only have a significant consequence in the figures but also in the form of presentation and its investigation that will enhance the value of the company and will result in improving organization competitiveness as compared to

other businesses and dealing with international markets. There is a vast and rich literature that helps in giving details about the benefits and limitations of mandatory adoption of IFRS. The first and foremost function of the IFRS is the standardization of reporting across countries, provided that, the implementation of IFRS is properly enforced. It will also help in suspecting the details of frauds happening in most of the developing countries. Understanding the perspective of both the developed and developing countries, which identifies and describes that IFRS helps in maintaining the accuracies for earnings that the company forecasted. Thus, IFRS adoption is becoming mandatory for the whole corporate world as this helps in gaining accurate results and helps in identifying the problems happening in the countries. In addition to this, it is said that IFRS is not only applied in developing countries but they are being practiced gradually in under developing countries also. But the present use of financial reporting by the organisations and their subsidiaries creates parallel reports in local GAAPs and in IFRS, which creates an additional risk of error and also demands more auditing compliance.

It would also help shareholders or investors and even companies to identify and simplify their investment decisions. Further, flexibility in accounting practices can be ensured by following IFRS because these are based on principles wherein specific rules are followed. This will ensure the formation of such financial statements which are not only useful but much easier to read and understand. Automatically, it would facilitate local companies to do business in foreign countries. Almost all companies have the power to expand their products and services beyond the countries. Having a direct single set of the standard around the world allows them to avail bigger opportunities and maintaining fewer regulations. This would help in streamlining the process carried in companies. Further, if all the companies across the world follow a single set of accounting standards that are issued by a single body that will regulate all these standards, it will help to streamline the system globally. So, a major advantage for all companies who want to do business across borders would be that they will be able to achieve this aim and foreign direct investment will also come in various countries as well as for India if these standards are followed and implemented fairly. It would also be easy for the organisations whenever any opportunity emerges to invest, to identify which destination is perfect for making investments. The fact of the

matter is that whenever multiple standards are followed, they create uncertainty in obtaining foreign direct investments due to uncertainty in the monetary transfers. There is a need for standard financial accounting which helps in joining countries and solving problems.

As per the study conducted by Aggarwal and Dhiman (2019), it was found that in the USA, there were only a few companies who were following IFRS as the USA never made it mandatory for its companies to adopt IFRS. The majority of companies were following US GAAPs for their financial reporting. In comparison to the USA, India was in a better position as far as applicability of these standards is concerned although not that high. UK had a big 92.6% of companies those who were following IFRS as they had implemented these standards in 2005. Japan had only 46.43% of companies that were following IFRS and the remaining companies were following either Japanese GAAP or US GAAP because a majority of Japanese companies are listed on the USA stock exchange. In the context of Germany, 100% of the companies of the sample taken were following IFRS being EU member.

Table 4.1: Applicability of IFRS in Selected Countries

Country	Year of Applicability of IFRS	%age of Companies who have Adopted IFRS	%age of Companies those who were following local GAAPs
India	2015	28.57%	71.43%
USA	Partial applicability	3.45%	96.55%
UK	2005	92.6%	7.4%
Japan	2010	46.43%	53.575
Germany	2005	100%	--

Source: Author's calculations

The above table 4.1 shows that only UK and Germany are the countries who have adopted IFRS in a true sense as they adopted it in 2005 and also made them applicable to the companies because UK and Germany both adopted it voluntarily due to gaining access to international funding and reputation among the auditors as well as linkage

with higher profitability. In the UK, firms normally are dependent on equity financing and they want to attract investors. To achieve this purpose, they need exemplary financial reports at all times. Whereas such was not the case in Japan. Japan also adopted it in 2005 but the listing of the majority of companies of Japan on US stock exchanges didn't let it adopt those standards fully. Although Japan is following US GAAPs. So, until the USA fully adopts IFRS, Japan would not be able to implement IFRS. India, in comparison to all these countries, adopted IFRS in its converged form which is called Ind-AS since 2015 and that too in a phased manner. So, many companies who do not fall in the criteria of applicability of implementation of those standards have not implemented it.

4.1.1 Need and Benefits of Convergence

Need for convergence is directly linked with the benefits attached with it which is explained through following figure 4.1

Figure 4.1 represents that the convergence of IFRS leads to uniformity & transparency in financial reporting and consistency & comparability in the data published by enterprises as it will provide useful information to all the stakeholders due to consistent application of accounting principles and improvement in reliability of financial statements which enhances confidences among all users related to accounting information (Statement 1:1 by Shil et al., (2009), 2:3 and 2:5 given by Ahmad & Khan (2010), 3:4 Vora & Sahoo (2011), 18:2 by Vinayagamoorthy (2014))

Convergence of IFRS also facilitates cross-border mergers and acquisitions (Statement 1:8 Shil et al., (2009) and 2:2 Ahmad & Khan (2010))

Convergence of Accounting Standards is becoming a prerequisite of gaining the investors' confidence for their basis of Investment decision which in turn bringing more investment to the countries who have adopted IFRS. Post IFRS convergence period, Investors majorly rely on income statement information as it has been prepared using a common set of accounting standards (Statement 1:5 by Shil et al., (2009), 3:2 Vora & Sahoo (2011), 5:1 Qu *et al.* (2012))

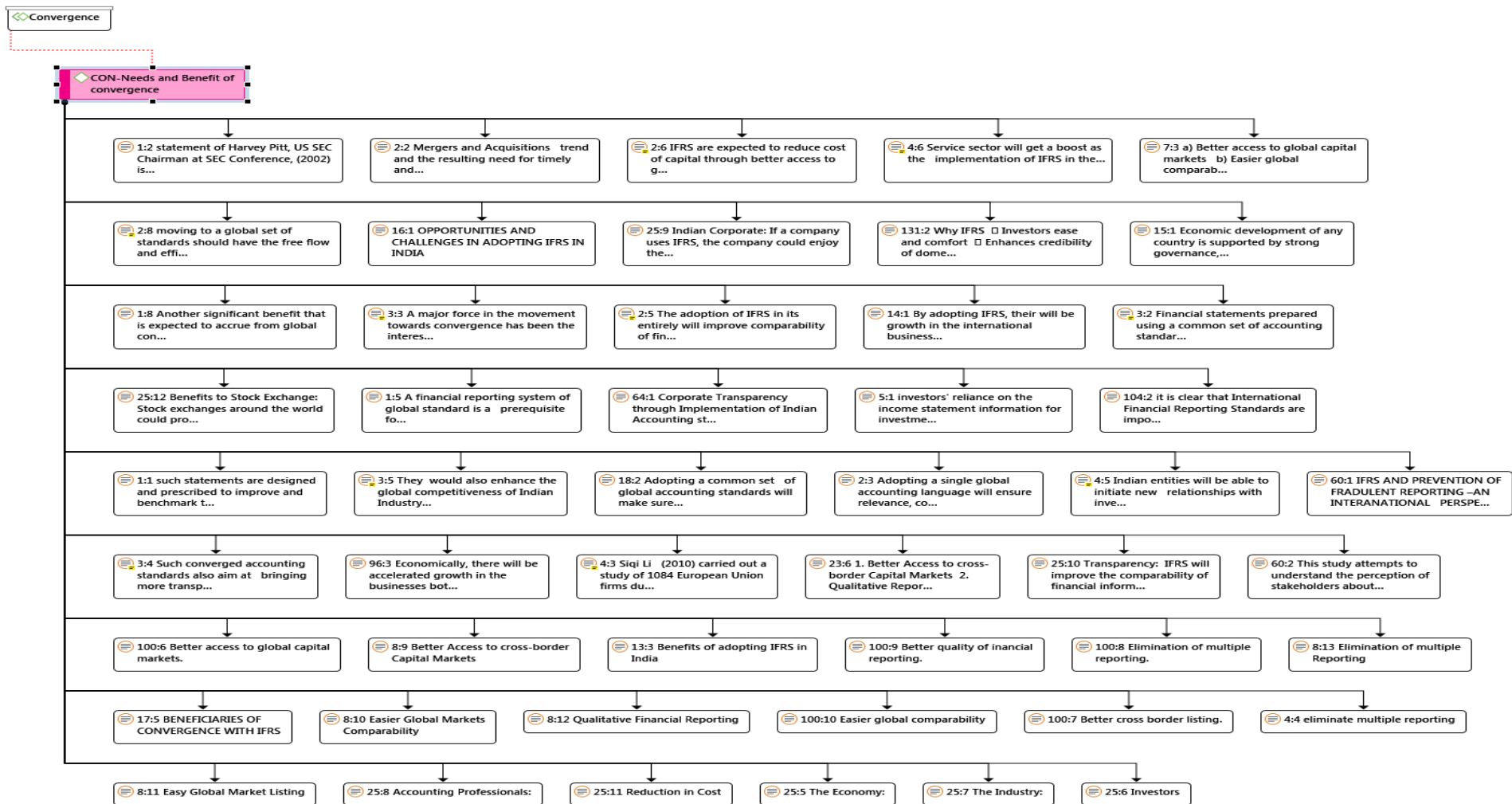


Fig.4.1: Needs and Benefits of Convergence

Source: Author's calculations

IFRS also helps to reduce the cost of capital through better access to global capital markets and also ensures free flow and efficient use and allocation of capital, which in turn creates confidence in the minds of foreign investors that they are beneficiaries of free flow of capital (Statement 2:6 & 2:8 by Ahmad & Khan (2010), 3:3 by Vora & Sahoo (2011), 7:3 by Rangappa (2013), 8:9 & 8:10 by Sharma & Vaja (2013), 23:6 by Patil (2015))

IFRS will help to grow in the international and domestic business which leads to the economic development of a country. It leads to more foreign capital inflow into the country (Statement 14:1 by Athma & Rajyalaxmi (2013), 96:3 by Aggarwal & Dhiman (2019))

4.1.2: Initiatives taken for Convergence

There are different initiatives taken for convergence of IFRS by various bodies so that a smooth sailing can take place for such convergence. These initiatives are shown in following figure 4.2

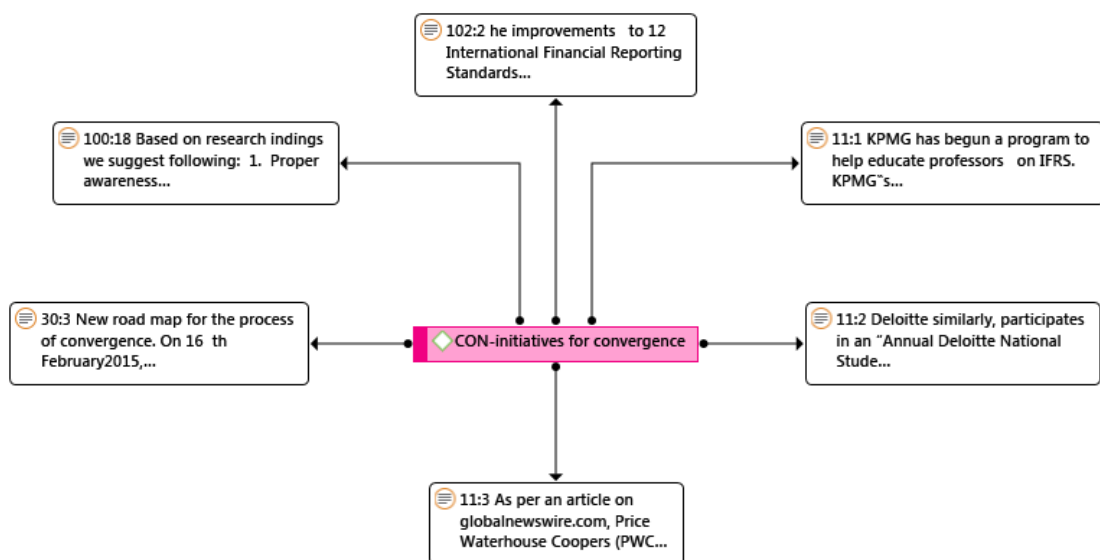


Fig.4.2: Initiatives for Convergence

Source: Author's calculations

Figure 4.2 represents that KPMG has started a program to educate professors on IFRS and issues of transition to be taken care of while making changes in the current

curriculum through “Faculty Forum Webcasts” and seminars. Similarly, Deloitte commences an “Annual Deloitte National Student Case Study Competition” for giving real exposure to real-life cases regarding changes that have been brought. As per an article on globalnewswire.com in 2009, Price Waterhouse Coopers (PWC) awarded grant of \$7,00,000 to educational institutions in the USA in helping to prepare for IFRS. (Statement 11:1, 11:2 & 11:3 by Bhargava & Shikha (2013))

MCA gave the guidelines for implementing Ind-AS. These Ind-AS are to be implemented on voluntarily basis from April 1, 2015 and on mandatory basis from April 1, 2016. ICAI has issued 39 accounting standards converged with IFRS (Statement 30:3 by Muniraju & Ganesh (2016))

For smooth convergence of IFRS in the Indian system, awareness among the stakeholders is must. For this purpose a huge numbers of trainers are required and they should be engaged to provide training so that a suitable system can be developed. Also government should make necessary amendments in laws and shall provide assistance and incentives so that convergence can be promoted. IASB is continuously making changes required by viewing the dynamic nature of different countries in International Financial Reporting Standards (IASB) (Statement 102:2 by Beria (2010))

4.1.3: Challenges in Convergence

No doubt, there were many initiatives taken for smooth convergence of IFRS but there were lot many challenges in that convergence due to which it could not be so easy to adopt this convergence.

The given figure 4.3 represents that convergence with IFRS is not an easy task. Moreover, convergence cannot assure that it will give same results in all the jurisdictions. This is because of shortage of the human resource which is particularly associated with IFRS related training. Also the emerging economies may face the problem of complexities involved in implementation of these converged standards. For Example, the complexities involved in fair valuation models.(Statements 1:10, 1:11 & 1:12 by Shil et al., (2009)).

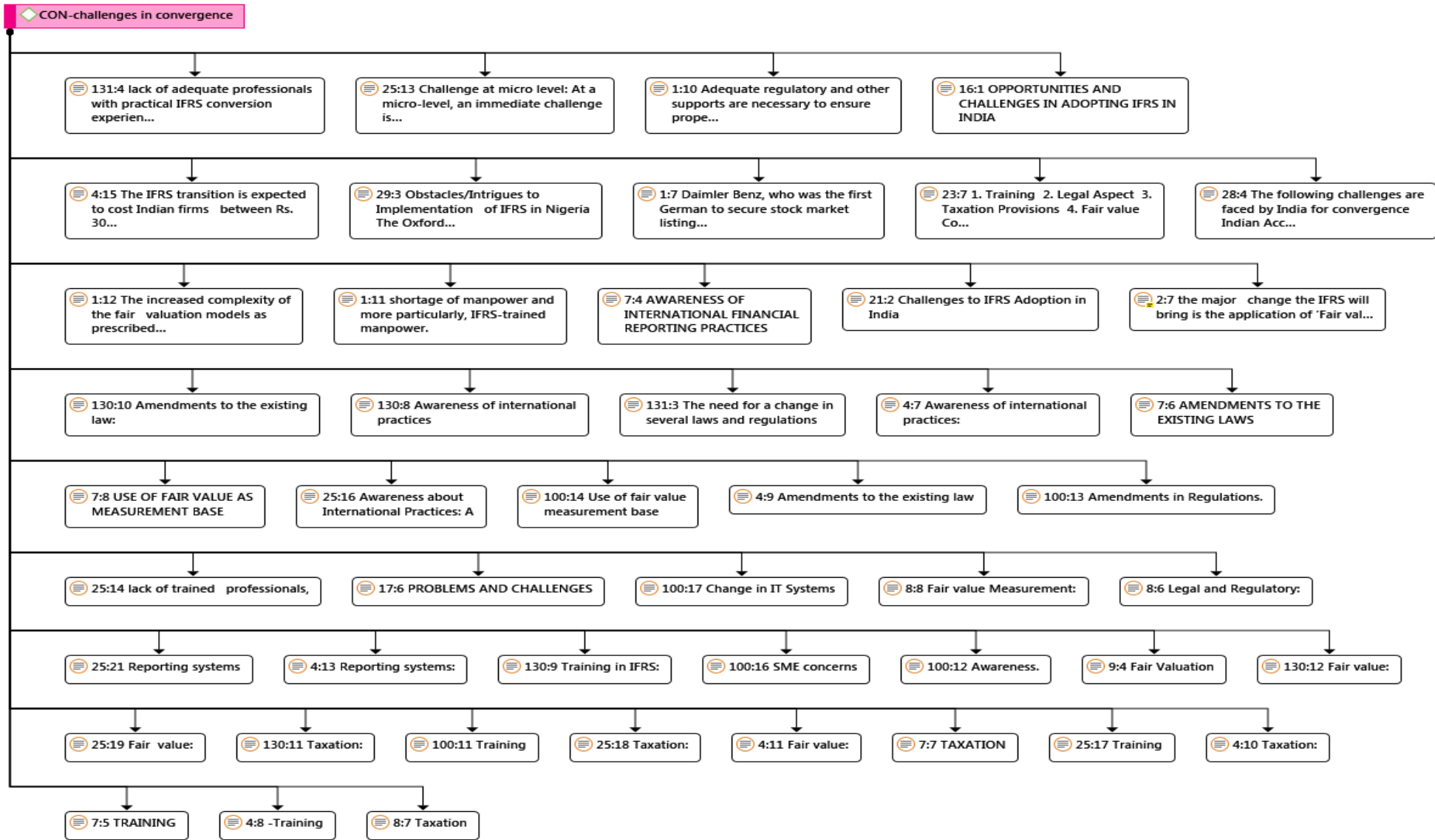


Figure 4.3: Challenges in Convergence

Source: Author's calculations

The challenges that would be faced while convergence of IFRS are awareness of international practices, Training of Personnel, Amendments to the existing law, Taxation, Fair value, Management compensation plan, Reporting systems, Complexity in adoption and IFRS transition Cost, Challenge at micro level, lack of trained professionals (Statements 4:7, 4:8, 4:9, 4:10, 4:11, 4:13 & 4:15 by Yadav & Sharma (2012), 7:4, 7:5, 7:6, 7:7 by Rangappa (2013), 23:7 by Patil (2015), 25:13, 25:14, 25:16, 25:17, 25:18 & 25:19 by Desai (2016), 28:4 by Fathima (2016))

4.1.4 Outcome and Contribution

There are many advantages with the actual use of the IFRS that are analyzed by various scholars. Firstly, a common set of standards will be created across the world in all the countries and also the multiplicity of accounting standards will be over and every country must adopt the IFRS so that the accounting standards become common to every country. Moreover, it will help to find the transparency between the transactions carried by the multinational companies while doing investments in different countries. This would not only decrease the cost of capital but will also provide liquidity for making transactions. Secondly, the time required, the efforts to be put in and the expenses being incurred on preparing multiple reports would automatically be reduced and organizations will have a choice to utilise these resources for other useful purposes. Moreover, a few more costs related to the work can also be reduced where the company can no longer hold multiple standards and regulations. They can save time, labour, and money, and many other resources. Third, it is quite difficult to monitor the activities of subsidiaries and control them but the use of the same set of accounting standards would make it easier to do the same.

4.2 Objective 2: To Explore the Gaps in the Financial Reporting Practices and Regulatory Framework which lead to Corporate Financial Transgression in Selected Countries

For the past so many decades, the world economies are facing umpteen cases of financial transgression and hence many ups and downs can be seen in such economies. No economy is untouched from this crisis and these ups and downs of economies lead to the collapse of stock markets many times. Moreover, it has been observed that financial transgression is happening in the industry at a very fast pace and it is an act that is against the rule of law and leads to huge problems for the Corporate world, Regulatory bodies and concerned economy. Financial transgression is considered as the concern which has now encircled the whole corporate world. Many cases have occurred due to improper practice of the rules and regulations. Both developed and developing nations have become victims of this catastrophe and such state of affairs have resulted in a major financial crisis for the economies and government revenue. It is true that whenever corporate scandals occurred, it was observed that it started by using creative accounting to manipulate books of accounts many times. Moreover, various accounting standards of the respective countries were used while preparing books of accounts to manipulate them which led to big financial scams and destroyed the public faith in the companies. In addition to this, the accountants who are involved in preparing books of accounts were shrewd and were able to come up with so many manipulation holes. There are numerous ways of accounting fraud happening in today's world. Various techniques were used by accountants to make the books more lucrative like recording a fake income or from the earlier years in which it never happened or it was never received, shifting current and future expenses, etc. Various tools and techniques were taken into the consideration for practicing accounts and further for analysing the data that may prove to be beneficial. But after implementing several such acts, it has been observed that some black holes are leaving great space for corrupt and dishonest accountants to do these acts of manipulating accounts to do fraud. It was also noticed that a corporate governance mechanism, which was always there, was not good enough to prevent these cases of corporate financial transgression happening in the organization and business failures. So to fill these gaps, both developing and developed nations should

make changes in the corporate governance mechanism over the period. The regulatory framework of any country should be responsible for good governance mechanisms so that such cases of financial transgression don't occur again and again. The financial reporting should be strong enough which does not allow the happening of such cases. Not only this, but financial reporting practices followed by various companies vary drastically from the others. Moreover, it is seen that India has its own set of accounting standards and the other countries of the world have another set of standards. So there is no uniformity even in reporting practices across the world. All this has led to the problem of different meanings and ended up with confusing interpretations of such accounting standards across the world. These different interpretations are creating a lot of chances for malpractices. So to explore the gaps in the financial reporting practices and regulatory framework which lead to corporate financial transgression in selected countries, various cases are mentioned below in the tables.

The table 4.2 reveals the various cases of financial transgression happening in India since the beginning of the LPG regime in 1991. These cases have their reasons to occur which are mentioned in the last column of the table. Also, the magnitude of each case is mentioned in US dollars. The reasons mentioned in the last column signal weaknesses in the system, be it use of creative accounting, government policy failures, Weak regulatory framework, etc. The scams mentioned in the above table that happened in India revealed that these scams were committed by manipulating the values of financial statements. The expenses were understated, the values of the corporate Assets of the firm were overstated and the liabilities were concealed or less reported than actual. These are the techniques which are covered under use of creative accounting, which is one of the major reason due to which need for adoption of IFRS has arisen. Satyam scam was one such big example wherein the highest level of use of creative accounting is seen. Even, auditors were not able to discharge their duties with due diligence and also a need was felt to fix the responsibility on professionals working independently. Adding to this, Ethical issues especially in accounting are ignored by the use of creative accounting.

Table 4.2: Cases of Financial Transgression in India

(Amount in US dollars \$)

Sr no	Name	Year	Amount in Indian Rupees	Amt in US Dollars \$	Gaps in financial reporting practices and regulatory framework
Pre-Convergence cases of Financial Transgression					
1.	Harshad Mehta Scam	1991	3500 Crores	\$1.43 billion	RBI& SEBI guidelines.
2.	C.R. Bhansali Scam	1995	1200Crores	\$35.8 Million	RBI guidelines and Siphoning off public money
3.	Ketan Parekh Scam	1999	1500 Crores	\$34.6 Million	RBI& SEBI guidelines.
4.	UTI Scam	2001	4800 Crores	\$1 Billion	Government policy paralysis
5.	2G Scam	2008	1.76 Lakh Crores	\$38.33 Billion	Irregularities and government policy paralysis

6.	Satyam Scam	2009	7800 Crores	\$1.64 Billion	Creative accounting and overstatement of assets
7.	Citibank fraud	2010	400 crores	\$8.7 Million	Creative Accounting and siphoned off money to divert to share market
8.	Sahara Scam	2010	25000 Crores	\$5.48 Billion	Violation of SEBI guidelines
9.	Speak asia	2010	2200 crores	\$48.2 Million	violation of provisions of Companies Act
10.	Antrix Devas Controversy	2011	4400 Crores	\$0.91 Billion	Violation of government regulations
11.	Adidas Scam	2012	870 Crores	\$16.3 Million	Use of Creative Accounting
12.	Coal Scam	2012	1.86 Lakh Crores	\$33 Billion	Violation of Government rules and regulations by government itself
13.	Sharda Chitfund Scam	2013	2500 Crores	\$41.3 Million	Creative accounting and Siphoning off money
14.	NSEL Scam (National Spot Exchange Limited)	2013	5600 Crores	\$92.5 Million	Use of creative accounting

Post-Convergence cases of Financial Transgression					
15.	Vijaya Mallya willful default case	2016	9000 Crores	\$1.34 Billion	Wilful defaulter
16.	PNB (Punjab National Bank)- Nirav Modi Scam	2018	11400 Crores	\$1.63 Billion	Violation of RBI guidelines
17.	Rotomac	2018	3695 crores	\$52.8 Million	Wilful default case
18.	IL & FS	2019	Rs 94000 crores	\$13.35 Billion	Mismanagement at top level
19.	DHFL	2019	Rs 14046 crores	\$1.99 Billion	Siphoning off money and violation of provisions of Companies Act
20.	PMC Bank	2019	Rs 4355 crores	\$60.69 Million	Violation of RBI guidelines
21.	Yes Bank	2020	Rs 20000 crores	\$2.69 Billion	Violation of RBI guidelines and NPA concealed

Source: Author's Calculations (Source details for the above table 4.2 is given in appendix1)

Table 4.3: Cases of Financial Transgression in USA**(Amount in US Dollars \$)**

Sr no	Name	Year	Amount in US Dollars \$	Gaps in Financial Reporting Practices and Regulatory Framework
1.	California Micro Devices	1994	139 Million	Creative Accounting
2.	Cendant	1997	19 bn	Accounting frauds
3.	Waste Management Inc.	1999	1.7 billion	Accounting malpractices
4.	Enron Scam	2001	74 Billion	Creative accounting
5.	Xerox Corp Scam	2002	2 Billion	Creative Accounting, Overstatement of revenue
6.	Adelphia Communications	2002	2.3 Billion	Fraudulent financial reporting and misappropriation of assets
7.	Tyco International	2002	600 Million	Misappropriation of assets, corporate greed and looting
8.	WorldCom Scam	2002	3.8billion	Fraudulent financial reporting
9.	Qwest Communications	2003	3 Billion	Securities fraud and other violations of the federal securities laws by use of insider trading.

10.	Health south	2004	2.7 Billion	Creative accounting False documents for manipulation.
11.	Refco	2005	430 million	Creative accounting
12.	AIG Scandal	2005	150 million	Accounting fraud
13.	Bear Stearns	2008	1.6 Billion	Creative accounting used to convert assets with high risk into assets of low risk by doing repackaging.
14.	Lehmann Bros	2008	619 billion	US investment bank, Sub-prime mortgage securities.
15.	Madoff Securities International Ltd	2008	64.8 Billion	Ponzi scheme wherein investors were allured to make investments in exchange for huge returns which were more than available from the returns in the market.
16.	Fannie mae	2008	200 billion	Failure occurred due to subprime mortgage crisis in the US market.
17.	MF Global	2011	1.6 billion	violating commodities trading law
18.	Wells Fargo Account Fraud Scam	2016	185 Million	violation of banking norms

Source: Author's Calculations (Source details for the above table 4.3 is given in appendix2.)

It is found in the above table 4.3 that in the various cases of financial transgression that happened in the USA, different reasons came out which lead to such happenings which are briefly discussed as under.

California Micro Devices

Every possible creative accounting technique was used to boost the revenue for doing this securities fraud and insider trading. Revenues were booked when an order came in, not when the product shipped. Products were shipped to customers that did not order merchandise and to freight forwarders to store until it was shipped to a legitimate customer or returned. Fake invoices and shipping documents were created to make it appear as if legitimate sales went out to real customers. Not only were these but invoices were created for non-existent companies. Records were created to make it look as if the title had been transferred on unshipped or fake goods.

Cendant

Chairman Walter Forbes was convicted of accounting fraud due to which the market value of the company dropped. SEC revealed the fact that the company had been committing several accounting frauds since 1988. In fact, an accounting scandal came into being when this company came into existence after being merged with Hospitality Franchise Systems. This scandal resulted in a settlement of \$2.83 billion on account of a class action suit.

Waste Management Inc. Scam

Senior Executives of this company were found involved in doing accounting malpractices. Allegations against this company were at peak during the period from 1992 to 1997. False statements were given by senior officers of the company. The company's stock fell drastically and investors lost around \$6 billion in investments. Arthur Anderson was the auditor of this company who was found guilty along with the senior officers of the company and was fined \$7 million.

Enron Scam

The mark-to-market method is the accounting method which was used by this company in which it made estimations of future incomes of all long-term contracts it

signed and this anticipated income then were also included in its Books of Accounting by Enron even though it is future income which might not realise. Being the first company that started using this method, the company hadn't even informed about the change of accounting method to its Investors. The scam was exposed when the company's anticipated future income was not realised. Sarbanes-Oxley Act, 2002 was passed by the US government afterward.

Xerox Corp Scam

Two creative accounting methods of recording the revenue were adopted by this company which led to the collapse of this company later. The first one was called the "cookie jar" method. In this method, revenue is stored improperly off the balance sheet and then this revenue is released during the lagging earning of any particular quarter or during any strategic times. The second method which involves more fraudulent practices was the overstatement of revenue through showing short-term equipment rentals as the long-term leases. These things made differences because the standards of the GAAPs allowed the company to show the full value of the lease to be the income of the very first year in which the lease started although the lease is always for a longer period and the rental should be recorded throughout the contract. The use of both these methods led to the collapse of this organization.

Adelphia Communications

This case was the result of fraudulent activities involved in financial reporting and the misappropriation of assets. The company had off loaded the bank debt of \$2.3 billion from its financial statements during 1991 and 2001 by not showing it as liability and was recorded as Off -balance sheet affiliates. Allegations were framed against the family members of the founders of the company and they were alleged to hide the developing financial problems and also using the company's assets for their personal use.

Tyco International

It was a story of human greed for more and more money and thereby looting the company and its investors. The CEO of the company, Mr. Dennis Kozlowski, misappropriated shareholders' funds and used them for buying very expensive items

of art for decorating his residences and also expended a lot on travel. There were also major accounting problems at Tyco as it involved improper cost capitalisation.

WorldCom Scam

It was a case of fraudulent financial reporting. According to an internal audit report, Transfers were not according to US GAAPs and reserves were shown as operating income.

The internal audit stated that from the period of 1999 to the first quarter of 2002, around \$3.3bn in profits were incorrectly recorded on its books of Financial Accounts. US government had passed the Sarbanes-Oxley Act, 2002, wherein internal auditing procedures were strengthened so that accounting irregularities can be traced and culprits duly penalized. This Act also put stringent Penalties for those who are involved in destroying, altering or fabricating the records of companies.

Qwest Communications

This organization did several illegal and unethical activities. The main accused in doing all these was former CEO Joseph Nacchio along with some other top managers. Qwest falsified documents by swapping their assets of telecommunication with similar assets of other telecommunication companies but showing it as revenue producing activity whereas it was only a swapping where no revenue emerged. In this way, they increased the revenue of the organization although the company had poor sales in that period. The perpetrators increased the fraudulent transactions and raised it to \$8 bn by doing Securities fraud and other violations of the federal securities laws. Nacchio and former CFO Robin Szeliga both were found guilty of insider trading of the company's shares.

Health south Scam

The tool used in this scam was Creative accounting. The company's Executives committed fraud by manipulating the internal financial statements by showing higher earnings if appearing short or not up to the expectations of the analyst. For this purpose, they used false documents for manipulation.

Refco

This scam came into the picture in October 2005, when the company publicly made a statement that it has not disclosed to the auditors and investors of hiding \$430 million in bad debts from its balance sheets. Refco Inc. had entered into crisis at that time when this fact came into the limelight.

AIG Scandal

This scandal came into the limelight in 2005 when an investigation was started against this company after getting signals from a whistleblower by US federal and state agencies. This accounting fraud was of nearly \$4 billion, the main accused of which was CEO and chairman Greenburg. He deceived regulators and overstated profits because the situational pressure was so much on him that he committed this fraud by showing higher cash reserves which were not in existence in fact. Revaluations of derivatives resulted in huge losses and the credit rating of the company got reduced. Investors lost money because of this. This company also faced the heat of credit default swaps which is nothing but insurance against bond default which was ultimately the reason for the 2008 crisis.

Bear Stearns

This bank had faced similar problems which were faced by Lehmann Bros. Ultimately this bank fell into trap of liquidity crunch and could not come out of that. The creative accounting was used to convert assets with high risk into assets of low risk by doing repackaging. To protect the rights of the consumers, Govt. enacted Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Lehmann Bros Bankruptcy

Lehmann Bros was a case that shook the whole US economy. It occurred because of the subprime crisis in the US. Prime Loans are loans given to high net worth people who are having a good credit rating. On the contrary, subprime loans are loans that are given to people with less net worth. They have bad credit ratings, poor collateral and late payment histories.

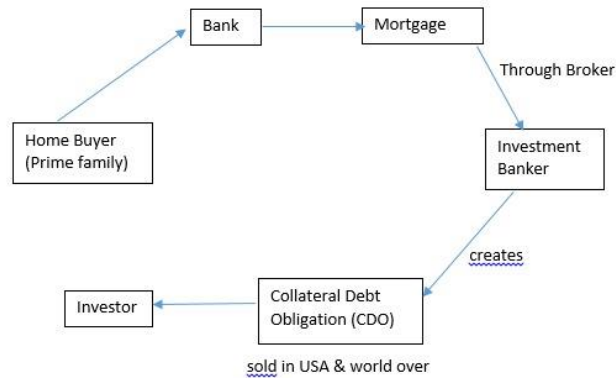


Fig. 4.4 The process of home loans to CDOs

Source: Author's Calculations

In the Figure 4.4, the process of home loans converting to collateral debt obligation is depicted which started from acquiring home loans by the prime families. Prime families were those families who were good in repaying their debt obligations and installments. Banks started to sell the mortgages to investment bankers. This demand came from Investor for CDOs because the interest rate for banks/treasury bills was only 1%. But the rate of Interest for CDOs was more. Investment bankers demanded more mortgages to convert them into CDOs. Banks tried to give more loans to have mortgages. Here subprime borrowers came into the picture.

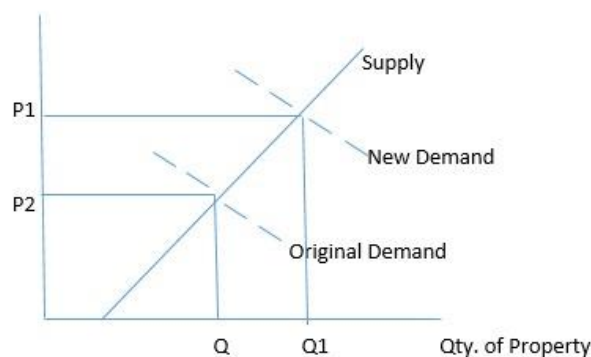


Fig. 4.5 : Original Equilibrium of supply & demand in property market

Source: Author's Calculations

In the Figure 4.5, the original equilibrium is shown of supply and demand in the property market at that time. Due to increased demand for CDOs, the prices of property and demand for the same started increasing and it shifted upwards.

New Equilibrium of Supply & Demand in Property Market

When the demand for CDOs started increasing, the Subprime borrowers came into picture because it was difficult for the banks to find new prime borrowers. So, they started giving loans to subprime borrowers because of demand for CDOs. In case of subprime borrowers, No documents were checked and their repaying capacity was also not good. Subprime borrowers took home loans but did not pay, started making default. Banks and investment Bankers left with houses only which they started selling. Buyers reduced, Price fall. New equilibrium shifted as depicted in following figure 4.6

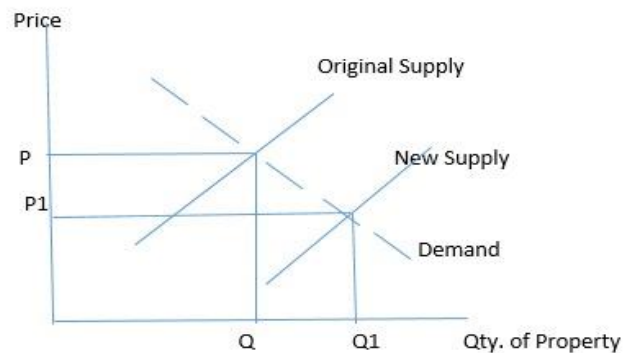


Fig. 4.6: Shift in Equilibrium of supply & demand in property market

Source: Author's Calculations

As per above Figure 4.6, demand for property started declining and prices were also on declining trend because now there were defaults on the part of subprime borrowers and banks had no other option but to repossess the property which increased within short period of time.

Default by prime borrowers resulted into crisis

Even Prime Buyers also started defaulting because the price of a property reduced & the loan amount was more than the property price. The whole chain was disturbed because property prices started falling.



Fig. 4.7 Default by prime borrowers resulted into crisis

Source: Author's Calculations

In the above Figure 4.7, it is shown that when default was also started by prime borrowers, it resulted into huge crisis as there was no home buyer now, hence no mortgages, no CDOs and no investor. This ultimately resulted into following:

Effects

- People started taking back their money from FDs which led to financial/Liquidity crunch.
- It caused a financial crisis globally.
- The housing bubble burst in UK, Ireland, Spain & the US.
- Lehmann Bros – Top investment Banker of the US filed bankruptcy due to subprime crisis.

Action Taken

- A loan of \$85 billion was given to American International Group AIG as an emergency loan.
- Bank of America acquired investment bank Merrill Lynch for \$50 billion in September 2008.
- Goldman Sachs & Morgan Stanley who were earlier acting as investment banks were allowed to work as commercial banks.

In March 2008, Investment Bank Bear Sterns was acquired by JP Morgan Chase (Commercial Bank) for the US \$1.2b and in Sep 2008, Lehmann Bros filed bankruptcy.

The solution given by Government

1. To help lower income people renegotiate their loans & stay in their homes (Debt restructuring)
2. Fewer taxes for low income people who took loans so that they will pay their loans for houses & don't sell.
3. Provide financial institutions with the liquidity that they need.

Madoff Securities International Ltd

It was a case of a Ponzi scheme wherein investors were allured to make investments in exchange for huge returns which were more than available from the returns in the market. They were to be paid returns based on capital employed by new entrants in this Ponzi scheme. A time came, when this fraud activity of Madoff came into the limelight and people refused to give new investments and ultimately old investors were unable to get any returns and thereby resulted in the failure of this Ponzi scheme. Madoff was sentenced to imprisonment of 150 years. To protect the rights of the consumers, government enacted Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Fannie Mae

It was a US PSU bank and this failure also occurred due to the subprime mortgage crisis in the US market. Fannie Mae and Freddie Mac incurred huge losses on their retained portfolios.

MF Global

Jon Corzine was Chairman and Chief Executive of MF global. He had failed to supervise the workings of his firm and put the client's money at stake. The company had to file bankruptcy.

Wells Fargo Account Fraud Scam

It was a perfect case of violation of banking norms by Wells Fargo bank. The accounts of the customers were charged with unnecessary fees without the consent of the customers. They were also issued credit cards without consent. Later, the bank had to face civil and criminal charges for such wrongdoings. Not only this, but employees also used the personal data of the clients for getting information to issue credit cards.

The Federal Reserve, the central bank of the USA, used its powers to put stringent penalties on the board of the bank for failing to oversee the bank. Also, rules were made hard by the Central Bank for the banks in 2016 which were relaxed later in 2018.

Table 4.4: Cases of Financial Transgression in United Kingdom

(Amount in US Dollars \$)

Sr no	Name	Year	Amt in US Dollars \$	Gaps in financial reporting practices and regulatory framework
Pre-Convergence cases of Financial Transgression				
1.	Polly Peck	1990	\$51.6 million	Use of creative accounting and various accounting tricks to inflate profits as well as corresponding shrinking balance sheet.
2.	Bank Of Credit And Commerce International (BCCI)	1991	\$495 Million	Violation of regulatory norms and financial manipulations
3.	Mirror Group	1991	\$727.5 Million	Failure in various issues. The auditors of the company- Coopers and Lybrand were involved in this.
4.	Baring Bank	1995	\$1 Billion	Fraudulent transactions
5.	Equitable Life's Life Insurance Scandal	2000	\$2.21 Billion	Malpractices and concealment and not fulfilling its obligations

6.	MG Rover Group	2005	\$1.1Billion	Partnership deal with SAIC got troubled as the British Government aspired to run the deal going and had withdrawn its offer of a £120 million loan.
Post-Convergence cases of Financial Transgression				
7.	Northern Rock	2008	\$5.13 Billion	Subprime crisis
8.	Royal Bank of Scotland Group	2008	\$4.9 Billion	No due diligence
9.	Hp Fraud Case	2011	\$8.8 Billion	Creative Accounting. The firm revenues were inflated fraudulently.
10.	Tesco	2014	\$424 Million	Creative Accounting.
11.	BT Italian Division Scandal	2017	\$703.16 Million	Use of creative accounting by making forged documents to avail bonus
12.	Carillion scandal	2018	\$1.6 Billion	Mismanagement and Debt Piling

Source: Author's Calculations (Sources details for the above table 4.4 is given in appendix 3)

It is found in the table 4.4 that in the various cases of financial transgression happened in United Kingdom, different reasons came out which lead to such happenings which are briefly discussed as under:

Polly Peck

The Chief Executive of Polly Peck Mr. Asil Nadir used creative accounting tricks to show a rosy picture of the balance sheet over the years. It showed and reported strong profits but also a weak and shrinking balance sheet for years before it finally collapsed. He did so by showing losses on its investments on account of big foreign exchange losses and thereby reduced its reserves and impaired the value of the goodwill. So he was finally found guilty of stealing £29 million and this fact was revealed by Serious Fraud Office.

Bank of Credit And Commerce International (BCCI)

It was noticed that the investigations and legal procedures under various jurisdictions followed had resulted in criticising the business practices of BCCI. Various deceits of BCCI were large enough to undertake the criminal activity on a large scale and undergone various financial manipulations. Various officers and employees were sentenced to long terms of imprisonment and an eye on the work of regulators and auditors had been started.

Mirror Group (UK)

This company was criticised for several issues. Therefore, this led to Failure in the detection of various issues. The auditors of the company- Coopers and Lybrand were involved in this.

Baring Bank

Nick Leeson was employed by Barings bank to exploit arbitrage opportunities that were to happen between derivative contracts on the SIMEX and Japan's Osaka exchange. His function was to arbitrage but he gambled and started dealing in derivatives without having any authority. Whatever he gambled by thinking in his mind, it did not mature and the Kobe earthquake of January 1995 led to the crash of

Nikkei and therefore it resulted in a loss of \$1.4 bn in the balance sheet of Barings bank.

Equitable Life's Life Insurance Scandal

Roy Ranson was the Chief executive of this company. This scandal-hit pension company collapsed in 2000 because of dubious practices followed by this company. Manipulations and concealment was the reason behind the fall of this company. This company promised high interest rates and it could not fulfill its promise when inflation and interest rate fell which left a big hole of £4.4bn in its accounts.

MG Rover Group

Mr. John Towers was at one time the chief executive of MG rovers. A joint venture partnership had been signed by Shanghai Automotive Industry Corporation (SAIC) in June 2004 with MG rovers. This partnership was done to introduce new models with MG Rover. It was found that the partnership deal with SAIC got troubled as the British Government first intervened to support the alliance between these two companies but later withdrawn the offer of providing a loan of £120 million.

Northern Rock

The company had an investment in the mortgage debt in the international markets. The Northern Rock's business collapsed on account of the default of people on their home loans in the US.

Royal Bank of Scotland Group

It exhibited almost no due diligence ahead of the ABN Amrobid, a fact that does not appear to have been challenged by anyone on the board. RBS's experience showed that it was not right on the part of the banks to focus on returns on equity.

Hp Fraud Case

The firm revenues were inflated fraudulently with \$700m over a two-and-a-half-year period by Dr. Lynch, the CEO. The revenues reported between the first quarter of 2009 and the second quarter of 2011 were more than \$2bn. HP said that one-third of the total profits were wrongly reported, hence the shareholders of Autonomy and HP after acquiring Autonomy got misled.

Tesco

It was a retail megastore. The reason behind this case was the use of Creative Accounting by cooking the books and thereby inflated its income and understated the cost. It did so because its profits were continuously declining in Europe due to strong competition. Rather than adopting other genuine means to uplift the profitability, this company started using cooking the books. It started booking revenue early and delayed recognition of costs but it could not help the company and these fraudulent acts of the company were exposed by a whistleblower. PwC was the auditor of this company. Relevant authorities such as FCA and FRC started investigating the case along with SFO and ultimately fraud came into knowledge of everyone and was fined heavily by SFO.

BT Italian Division Scandal

Prosecutors in Italy, in a document, alleged that the employees of BT Italy forged the documents and made fake transactions to hide the actual financial position of the company to hit bonus targets. Various claims were made and it marked the period of 3 weeks which involved the explanations by the people involved in the investigation under the Italian law regarding why they should not be charged.

Carillion scandal

This was the second largest building and outsourcing Provider Company in the UK and had 43000 employees. While conducting a regular review the UK's FRC raised concern in 2015 and highlighted potential problems with the company's books which was indicating the profit shortfall expectation and hence it was a warning signal for the banks too but in 2018, Carillion had to go into compulsory liquidation. But up till that time, the company had piled up a debt of £1.5bn with less than £30m left in the bank.

The reasons behind this fall were

1. Board of the company was failed on account of taking high debts but trading of low margins.

2. Carrying value of goodwill was shown at a very high figure and hence handling of financial accounts and reporting was not at all good.
3. There were clear signals that debt is increasing and operating cash flow was being used for paying dividends only and nothing is saved for making future investments.
4. Internal auditors also failed to report any of such problems.

Table 4.5: Cases of Financial Transgression in Germany

(Amount in US Dollars \$)

Sr no	Name	Year	Amt in US Dollars \$	Gaps in financial reporting practices and regulatory framework
Pre-Convergence cases of Financial Transgression				
1.	Balsam	1994	\$2 Billion	Creative Accounting.
2.	Bremer VulkanVerbund	1996	\$685 Million	Creative accounting
3.	Flowtex	2000	\$1.81 Billion	Creative Accounting. Only few machines were shown sold many a times
4.	Comroad	2002	\$26.5 Million	Creative Accounting. Fictitious transactions with non-existent persons.
5.	Philipp HolzmannBankruptcy case	2002	\$225.15 Million	Creative accounting. It overvalued its unfinished contracts, under reported its provisions and also reporting about risk factors was not sufficient while producing management reports.

6.	Infineon Case	2004	\$384000	Kickbacks and bribery case to acquire contracts
Post-Convergence cases of Financial Transgression				
7.	Arcandor	2009	\$1 Million	Insolvency petition filed by this company after fraudulent activities done by its CEO Mr. Middelhoff
8.	Schlecker	2012	\$21.25 Million	This company went into losses because of lavish expenditure by the family members of owner and filed for insolvency on account of losses.
9.	Deutsche Bank	2015	\$80.4 Million	failures in governance and internal controls
10.	Volkswagen's scandal	2015	\$33 Billion	Violation of environmental norms
11.	Wire card Scandal	2020	\$2.1 Billion	Accounting irregularities

Source: Author's Calculations (Sources details for the above table 4.5 is given in appendix 4)

It is found in the above table 4.5 that in the various cases of financial transgression that happened in Germany, different reasons came out which lead to such happenings which are briefly discussed as under:

Balsam

Fictitious receivables and fake incomes were shown in the financial statements. Tax evasion and forgery were aimed at covering up years of losses in gambling in financial derivative.

Bremer Vulkan Verbund

This company had 22000 employees. Bremer Vulkan Verbund AG (BVV) was a shipyard company with a long-lasting tradition. Because of the unsound diversification strategy, this company came under immense pressure which led to chronically strained liquidity.

Flowtex

The way this company perpetrated this fraud was a different kind of phenomenon in which it produced only 181 machines and they were sold so many times that it appeared to be in the 1000s, whereas it was never so the case. Only a few machines were paraded at different locations with different certificates and identification plates which were manipulated. It was later revealed that these machines were moved from one location to another during meal breaks.

Comroad

ComRoad was a supplier of telematik traffic systems. A journalist revealed that 90% of this company's transactions came from a customer in Hong Kong who was never existent and hence all these transactions were fictitious.

Philipp Holzmann Bankruptcy case

It had 23000 employees, 11000 in Germany and 12000 in international subsidiaries. Philipp Holzmann AG was Germany's second largest and one of Europe's largest construction and engineering companies. This company went into huge losses because of using creative accounting. It overvalued its unfinished contracts, underreported its provisions and also reporting about risk factors was not sufficient while producing

management reports. Internal controls were quite poor and it facilitated the preparation of misleading financial statements.

Infineon Case

It was a case of taking kickbacks for motorsports contracts and top management was aware of this fact. Later it was found and confirmed that kickbacks worth \$3,04,000 were received by a top manager to get those contracts.

Arcandor

Arcandor was a German departmental store. Mr. Middelhoff was the Chief executive of Arcandor Company. He was appointed in this company to restore profitability. He embezzled the money which he used to publish a book in the honor of his mentor and evaded tax and was found guilty of such acts when caught. Mr. Middelhoff was also accused of billing Arcandor for his private unauthorised trips.

Schlecker

It was a family run business that was selling products of personal hygiene and household articles. It had 52000 employees. But this business filed for bankruptcy and it came to the notice of the court that family people only enriched themselves and embezzled the money. That money was the money of shareholders.

Deutsche Bank

This company failed because of multiple reasons. Prominent among them were misleading the DFSA, their internal controls and processes were poor and governance mechanism was also weak. Not only this, but anti-money laundering processes were also not up to the mark.

Volkswagen's scandal

The company sold cars to customers which later found to be not according to environmental regulations. So this company incurred a huge loss in the form of a market capitalization of \$20 billion. The company had to compensate the customers by paying huge amounts and investors had to face the heat of such compensation.

Wirecard Scandal

Wirecard was a payment processor company in Germany that filed for insolvency in June 2020. It was found after series of investigative reports of financial irregularities in this company. It revealed 1.9 bn euros disappeared from the balance sheet of the company. Because of this scandal, the financial regulator of Germany BaFin has to face a lot of criticism because of not taking appropriate action. It temporarily banned short selling in Wirecard stock. The auditors EY has also been criticized for not picking up on accounting irregularities that were happening for a long back. This scam is considered an Enron scam of Germany. This scam has put the question on the corporate governance practices followed in Germany. The chairperson of the Association of Supervisory Boards in Germany, Peter Dehnen, has called for the reforms and he believed that with the present rules they are sitting in the last century. He also asked for new and dialogue driven communication with all stakeholders and not just shareholders.

Table 4.6: Cases of Financial Transgression in Japan

(Amount in US Dollars \$)

Sr.No	Name	Years	Amt in US Dollars	Gaps in financial reporting practices and regulatory framework
Pre-Convergence cases of Financial Transgression				
1.	Yamaichi Securities	1997	\$2.5Billion	Detection of accounting fraud of around 200 billion Yen by hiding the losses. Payment of illegal dividends were detected.
2.	Long-Term Credit Bank	2000	\$4 Billion	Under reporting of Bad loans. Fraud charges were framed
3.	Nikko Cordial	2006-07	\$23.2 Million	Manipulations in earnings. Reason was the performance-related compensation of the management.
4.	Kanebo	2004	\$1.85 Billion	Creative Accounting.
5.	Livedoor	2006	\$500 Million	Violation of the provisions of security law.

6.	IHI Corp	2007	\$1.40 Billion	Overstatement of profits
Post-Convergence cases of Financial Transgression				
7.	Olympus corporation	2014	\$273 Million	Use of creative accounting by not booking impairment loss
8.	Toshiba Accounting Scandal	2014	\$1.2 Billion	Creative accounting and involved in the fraudulent activity of overstatement of profits.
9.	Kobe steel	2017	\$1.6 Billion	False information relating to the products to be sold to the top customers.

Source: Author's Calculations (Sources details for the above table 4.6 is given in appendix 5)

It is found in the above table 4.6 that in the various cases of financial transgression that happened in Japan, different reasons came out which lead to such happenings which are briefly discussed as under:

Yamaichi Securities

It was a case of accounting fraud of around 200 billion Yen by hiding the losses. Payment of illegal dividends was detected. Securities dealing in 'Tobashi' witnessed huge losses. The market value of the shares was brought down to the book value. Such shares were valued at historical cost as per the provisions of accounting standards followed at that time to cover the unrealized losses.

Long-Term Credit Bank

Bad loans were underestimated by US\$4 billion. Fraud charges were put on three executives. Such conviction was overruled by Supreme Court in 2008.

Nikko Cordial

One of the important motivations for doing manipulations in earnings was the performance-related compensation of the management. A management compensation scheme was set up by the company which would be connected with an annual consolidated net income.

Kanebo

Under this case, unsaleable merchandise was sold by the company before the end of the financial year and later on, that was purchased just at the beginning of the next financial year. In this way, the firm booked 28 bn yen in bogus profits and also deferred expenses during that period. This company also showed negative net worth for lesser years when it was actually not so. According to Tokyo Listing rules, the company had to be delisted for the same if the facts were not concealed.

Livedoor

This company was an internet service provider. It violated the provisions of security law. When raids were conducted on various locations of the company, share prices plunged immediately and arrested five ex executives of the company. This company lost 90% of the stock price in just 4 months after committing securities fraud and ultimately it got delisted from Tokyo Stock Exchange in 2006. In order to prevent a recurrence of the scandal, Japan passed a law similar to Sarbanes-Oxley, nicknamed J-SOX, on June 14, 2006.

IHI Corp

The profits were overstated in this case and it was a case of the use of creative accounting.

Olympus Corporation

The problem in this company started when KPMG, the original auditor of the company questioned the overvalued figures of goodwill in the books and asked the board to account for the impaired loss. The company did not agree rather removed the auditors and appointed new auditors E&Y. Three companies bought for 1.5 bn which had no business. Michael Woodford questioned that deal asked for forensic accounting to be done for this deal and asked for a meeting but he was fired. 14

person on the board gave their consent to fire whistle-blower Michael Woodford (President). A retired judge who investigated the scam (Kanaka) said that it was a “Yes man Board”. A decline of 70% in stock price was seen only in 3 weeks. The company incurred huge losses in derivative investments. This scandal led to the arrests of the executive team along with a decline in the share prices up to 80%. There came a threat of de-listing on the Tokyo Exchange as well because of this scandal.

Toshiba Accounting Scandal

This case followed the practice of Creative accounting and involved in the fraudulent activity of overstatement of profits.

Kobe steel

This case involved false information relating to the products to be sold to the top customers like Boeing (BA) and Toyota. Kobe Steel (KBSTY), a century-old industrial giant, itself admitted this fact to falsifying data on products sold to top customers. This information affected around 500 companies including manufacturers of Japan's famous bullet trains. Kobe employees made fake reports to look as if products meet specifications but the fact was not so. Industries affected include aviation, automobiles, railways and nuclear power.

Reasons of Financial Transgression

There were various reasons that came out of the cases of financial transgression which are depicted through following figures:

4.2.1 Reasons of Financial Transgression: Frauds and Personal Benefits and Greed

◇ FINANCIAL TRANSGRESSIONS-REASONS

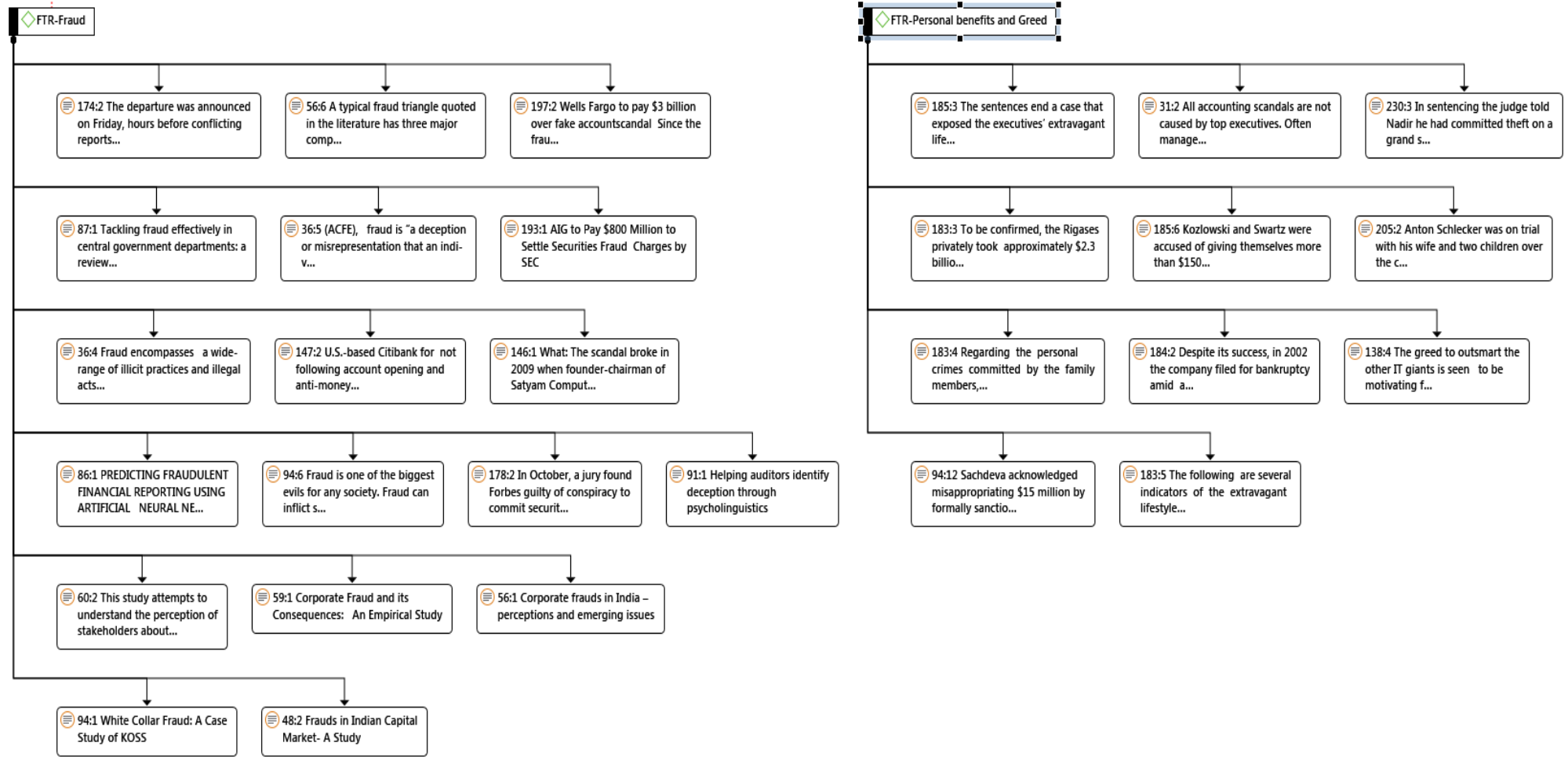


Figure 4.8: Reasons of Financial Transgression: Frauds and Personal Benefits and Greed

Source: Author's calculations

Figure 4.8 represents that one of the major reasons of happening of cases of financial transgression was Frauds. The scandal came out in 2009 when Satyam Computers' founder-chairman Ramalinga Raju confessed that he tampered the company's accounts and it has been revealed that it is 7,000 crore accounting fraud, one of the biggest Accounting Frauds in the World History (Statement 146:1 in The Hindu)

Non Compliance of account opening and anti-money laundering norms followed by U.S.-based Citibank at its Gurgaon branch, which witnessed a fraud of Rs. 461 crore (Statement 147:2 in The Hindu)

MF Global tried to cell many assists but it was derailed when a report came out that \$633 million of customer money is missing. (Statement 174:2 in Reuters)

A jury found Forbes guilty of conspiracy to commit securities fraud (Statement 178:2 in CBS News)

It is not always the top executives who commit all accounting scandals rather sometimes it is insiders who are pressurized or may be willingly commit such scandals. They may be employees or managers of the company. Such scandals are committed for the personal benefits of individuals and it includes illegal acts which involves misrepresentation in financial statements and intentional deception. (Statement 31:2 Lohana (2013), Statement 36:4 Bhasin (2013))

The personal aspirations for luxuries and greed led to committing scandals. In case of Adelphia communications, it was found that the personal loans worth \$2.3 billion were taken by Rigases when the financial performance of the company was deteriorating day by day. The chairman John Rigas also revealed acquiring personal debt of \$66 million from the company to fulfill his personal luxurious aspirations. His family members were also involved in purchasing illegitimate personal luxuries worth \$2.3 billion. Polly peck theft was based on sheer greed. In the case of the Tyco scandal, the extravagant luxurious lifestyle of Kozlowski resulted into \$600 million pilferage from the company which included a birthday party for his wife worth \$2 million and \$18 million for purchase of an apartment and also \$6000 spend for shower curtain. Kozlowski and Swartz were accused of giving themselves more than \$150 million in illegal bonuses and forgiving loans to themselves. They also

manipulated the stock price of the company. (Statement 183:3, 183:4, 183:5 & 184:2 USA 11 the fraud case - Adelphia Family Scandal - 'Massive' Fraud), Statement 230:3 in The Guardian, Statement 185:3 & 185:6 in NBC News)

4.2.2 Reasons of Financial Transgression: Creative Accounting

Figure 4.9 represents that Creative Accounting has been widely used for financial transgressions. It typically involves complex methods for misusing funds, overstating revenues, understating expenses, overstating the value of corporate assets or underreporting the existence of liabilities. Factual information was either altered or misrepresented in financial statements. (Statements 31:3 by Lohana (2013), 37:5 Parmar (2015)).

Use of creative accounting is legal when it is confined to choose between two different accounting methods for example methods of depreciation or methods of valuation of stock. Many transactions involve estimation, judgment and prediction. Artificial transactions can be entered into both to manipulate balance sheet amounts and to move profits between accounting periods. Genuine transactions can also be timed so as to bring desired results in the accounts. Examples of these are Enron: Accounting/off-balance sheet contrivances; in which Chief Financial Officer was indicted, company got bankrupt and billions of equity value lost. In case of Tyco scandal, Chief Executive Officer was charged with tax evasion, waste of corporate assets and massive charges of \$6 billion were recorded to earnings after disposal of CIT unit. In case of WorldCom scam, loans to Chief Executive Officer were given and company got bankrupt. In case of Adelphia Communications, Off-balance sheet loans were given to senior officers. Accountant overstated profits by \$1.4 billion in Xerox accounting fraud by the use of creative accounting.

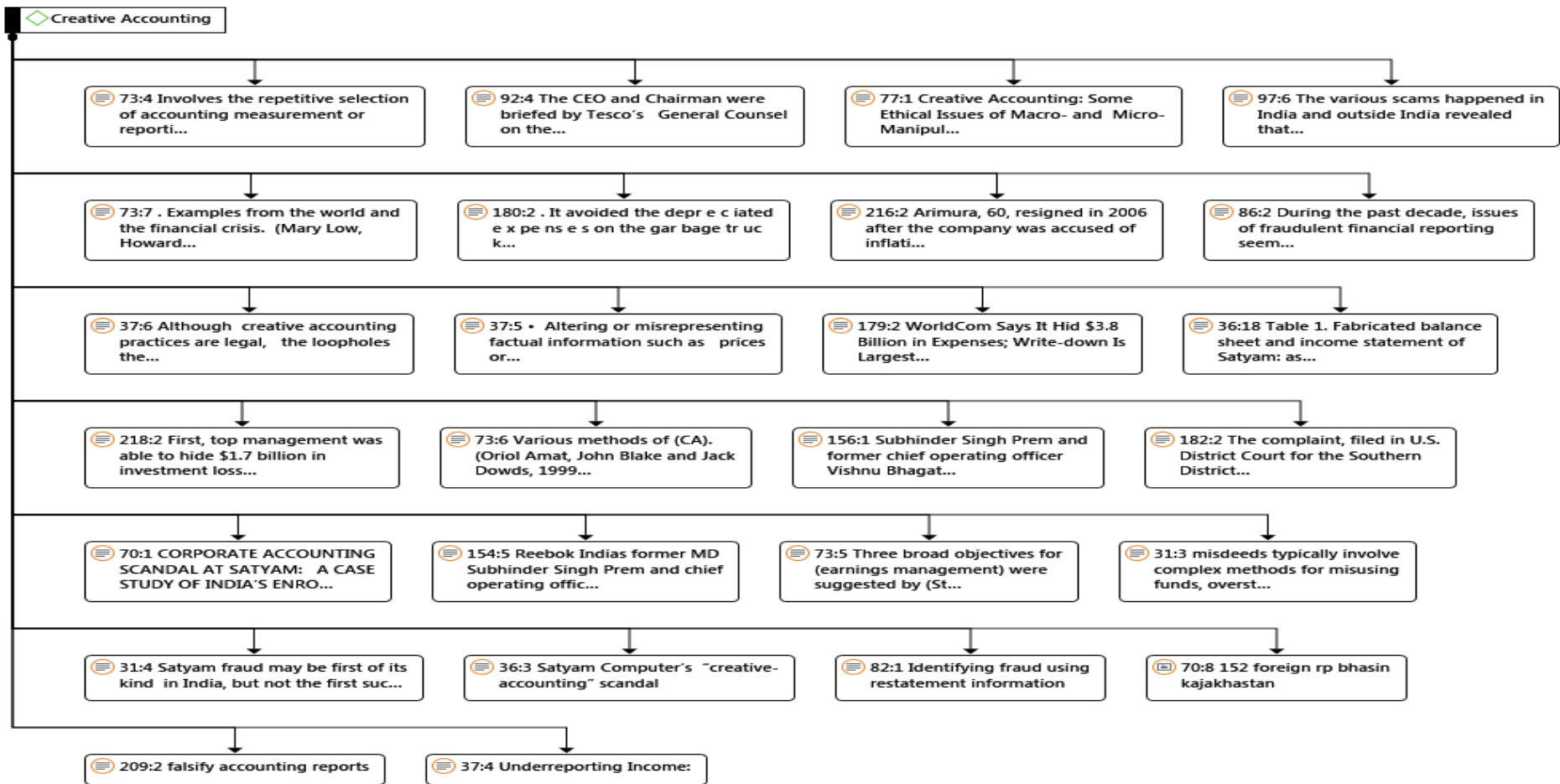


Figure 4.9: Reasons of Financial Transgression: Creative Accounting

Source: Author's calculations

In case of Qwest Communications, Chief Executive Officer resigned, profits restated, assets cut by 50%, or \$34 billion; share prices also dropped. In case of Health South scam, false entries were done both in income statements and balance sheets (Statements 37:6 by Parmar (2015), 73:6 & 73:7 by Sahiti and Aliu(2017)).

The various scams that happened in India and all over the world clearly showed that these scams were committed because the accused used the malpractices of understating expenses, overstating the value of corporate assets or underreporting the existence of liabilities like in Citi Bank Scam, Arimura, 60, resigned in 2006 after the company was accused of inflating profits. In Olympus, First, top management was able to hide \$1.7 billion in investment losses for nearly 20 years while external auditors lacked due diligence and failed to uncover all the falsified business transactions. In WorldCom Scam, It Hid \$3.8 Billion in Expenses; Bernard Ebbers was convicted and sentenced to 25 years in prison for his role in the scandal. Similarly in Xerox Scam, the accused used a variety of "accounting actions" and "accounting opportunities" to meet or exceed Wall Street expectations, and hide its true performance. In Reebok Scam, Subhinder Singh Prem and former chief operating officer Vishnu Bhagat have alleged that the German sports goods maker asked them to manipulate company accounts in order to keep the valuation low for Reebok India (As per statements 97:6 by Aggarwal et al., 216:2 in Japan Times, 218:2 by Elim et al. (2014), 179:2 in Worldcom,182:2 in CNN Money, 154:5 in Financial Express, 156:1 in Firstpost).

4.2.3 Reasons of Financial Transgression: Violation of Norms

Figure 4.10 represents that Harshad Mehta, along with his associates did manipulations to artificially increase the prices of many stocks thereby resulting into rise of sensex at Bombay Stock Exchange (BSE) in 1992. He used the loopholes of banking system and manipulated them to take advantage and drained off funds from inter-bank transactions. Subsequently, sensex rose dramatically due to manipulated buying of shares at a premium across many industries. The biggest banks—JPMorgan Chase, Bank of America, Citibank, Deutsche Bank and recently, Wells Fargo—were accused of fraud and contributing to financial decline not seen since the great

depression, but hold no accountability (Statements 31:5 by Lohana (2013), 190:2 The Hill)

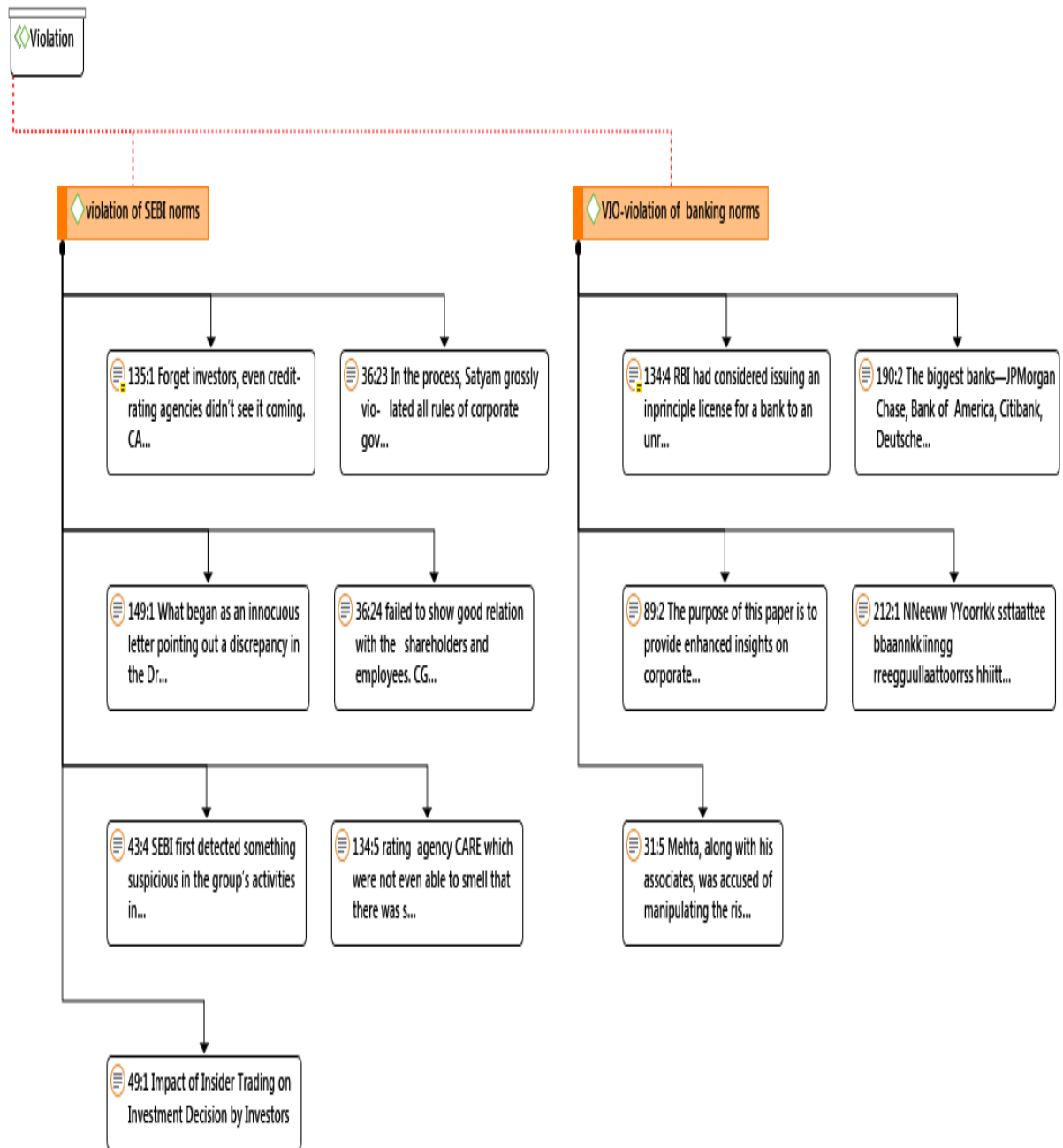


Fig. 4.10: Reasons of Financial Transgression: Violation of SEBI norms & banking norms

Source: Author's calculations

In the process of the Satyam scam, Satyam grossly violated all rules of corporate governance. (Statements 36:23 by Bhasin (2013), 43:4 by Arrawatia & Pandey (2016), 134:5 India Mirror, 135:1 in India Forensic, 149:1 in Libertatem)

SEBI first detected something suspicious in the group's activities in 2009. It challenged Saradha because the company had not complied with the Indian Companies Act, which requires any company raising money from more than 50 investors to have a formal prospectus, and categorical permission from SEBI, the market regulator.

Rating agency CARE was not even able to smell that there was something wrong in the company and instead rated the CR Bhansali's company with a three-star rating of AAA.

What began as an innocuous letter pointing out a discrepancy in the Draft Red Herring Prospectus of Sahara, soon snowballed into uncovering an illegal scheme of the public offering made by the company.

4.2.4 Reasons of Financial Transgression: Failure of Corporate Governance, Management and Government policy

The above given figure 4.11 represents that Corporate Governance is one of the biggest reasons for financial Transgression. The case study of various Companies like Satyam Computers and Tesco is a sheer case of failure of Corporate Governance in India (Statements 38:6 by Khurana (2016), 92:17 by Kukreja & Gupta (2016))

Many companies faced financial implications due to failure of Corporate Governance and mismanagement. Holzmann, Germany's second largest construction company, revealed a potential loss of \$1.3 billion. It also shocked the market by saying that it happened due to mismanagement by its former executives.

Another Corporate Olympus' top management was able to hide \$1.7 billion in investment losses for nearly 20 years. It continued to pursue failed investments that resulted in major losses while external auditors lacked due diligence and failed to uncover all the falsified business transactions. The company was initially able to hide these losses by booking the assets at historical cost versus fair market value.

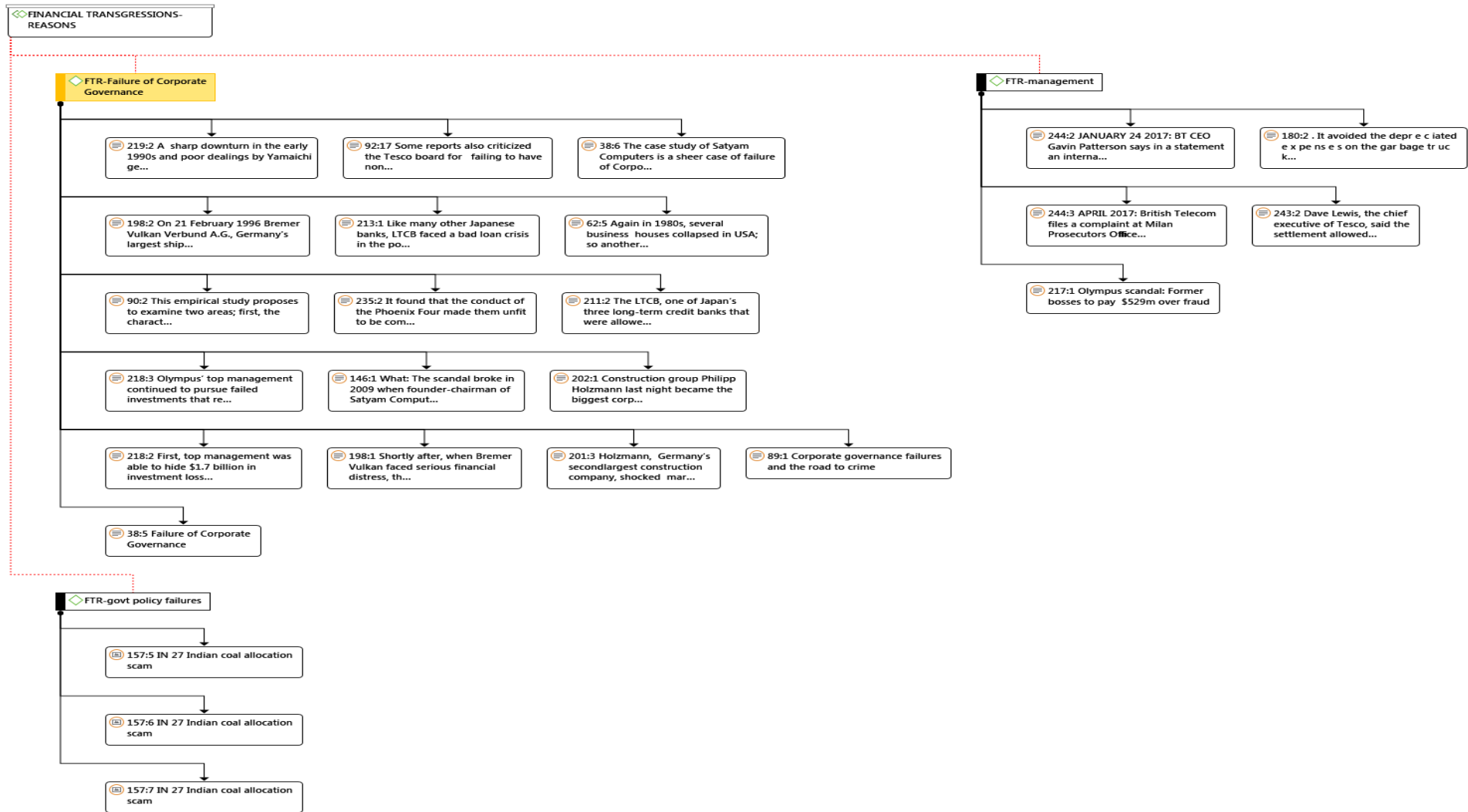


Figure 4.11: Reasons of Financial Transgression: Failure of Corporate Governance, Management and Government policy
Source: Author's calculations

A sharp downturn in the early 1990s and poor dealings by Yamaichi generated losses of more than 200 billion yen. Fearing the demise of the firm through loss of reputation that would result if the scale of losses became known, the brokerage shouldered the loss of its clients and moved it off-balance sheet

It found that the conduct of the Phoenix Four made them unfit to be company directors and that throughout their reign, a complex corporate structure was adopted that saw the creation of 33 separate companies. The report stated that the directors manipulated the assets and income streams through the use of companies in which they, rather than the creditors of MG Rover, had an interest, allowing them to benefit through large salaries, dividends and profits (Statements 201:3 by AP News, 218:2 & 218:3 by Elam et al. (2014), 219:2 in Wikipedia, 235:2 in The Guardian states).

4.2.5 Outcome and Contribution

In the above section, the various cases of financial transgression are discussed in India and selected G8 countries. It explains the quantum of the amount involved in various cases and also the reasons for such cases. Also, a brief summary of every case is given so that one can understand the different reasons for such cases along with the timings of such cases. This part is reflecting the comparable situations of the selected countries against Indian incorporations. The common causes that came out of this study are:

- Violation of Regulatory guidelines
- Violation of banking norms
- Use of Creative Accounting
- No uniformity of accounting standards across countries
- Greed of individuals
- Luxurious lifestyles of top executives
- Wilful defaulter of banks
- Overstatement of profits
- Fake invoices to manipulate accounts

- Siphoning off money to personal accounts
- Government policy failures

All these reasons can well be taken as a benchmark by any organization so that a proper internal control system can be employed to avoid such causes of financial transgression in the corporate world.

4.3 Objective 3: To Compare Pre-convergence and Post-convergence Financial Reporting Disclosure Practices and Amendments made in Regulatory Framework to Prevent Corporate Financial Transgression in India.

In the globalized scenarios, the resources can be accessed with great cooperation and this can help in completing the global marketplace, as it will help in embracing the essential aspects and demonstrate the ethical rules and regulation for growing prosperity. In recent decades, it has been noticed and witnessed that there is a sharp increase in the greed of individuals. Organizations have grabbed an inevitable presence in the present society and there has been a constant increase in corporate frauds. All these frauds and misconducts are moving towards threat as far as economic perspectives are concerned. The process of liberalisation has witnessed the occurrence of these scams. These frauds are also concerned with technology up gradation. Nowadays, the fast-growing economies are witnessing an increment in corporate frauds. Such a situation is a serious topic of discussion among the various parties and countries. The parties can be academicians, researchers, criminals, investigators and professionals. After each scam in India, the Indian government seems to be working towards abatement of a number of frauds by strengthening the regulatory framework machinery of the country. These frauds involve the connection between the company and its members and bureaucrats and politicians. Such connections can be found out by examining the organizational structures of the companies and by identifying the roles and responsibilities of the people concerned with the fraud. Moreover, it was even noticed that India is considered as the great clutch of fraud. That is why it is very important to maintain an ethical framework of corporate governance and transparency. In the recent past, there was so many global financial crisis, along with huge corporate failures which shows that the framework of corporate governance is not maintained in the country. On the other hand, certain weaknesses are also present in business enterprises. Prohibition of Insider Trading Regulations was introduced in 1992 by SEBI which was later amended in 2002. Such amendment does not involve any transnational jurisdiction. More and more powers must be given to SEBI and it should be allowed to work as Securities Exchange Council. India is having an abundance of rules and regulations dealing in a number of

frauds and their kinds, but even then there is no dearth of scams. There should be a spirit of exemplary punishment while making laws and the procedure of punishment.

Financial Transgression is not legal. It would be a disaster for the Corporate Sector, Regulatory Authority and state economy. There are various considerations under this Act such as funds and accounts getting misappropriated, false accounting statements and corporate reporting, deceiving the stakeholders and government. These practices are performed by the people having the motive to deceive investors which results in loss of money of the investors. This will lead to the deterioration of the corporate impression of the state. In fact, it is observed that for the last so many years the financial structure of the world is undergoing variations and this was happening because of the cases of financial transgression all over the world. Negligence and improper use of the regulatory framework and its practices have led to an increase in the cases. The governments are facing a major crisis and both the developed as well as developing nations are the victims of such a situation. It has been observed that creative accounting was used to manipulate financial statements in many corporate scandal. There is no use in preparing and formulating well established accounting standards as shrewd accountants always are able to find loopholes for their manipulations leading to big corporate scandals, thus, tarnishing the image of the organisations in the eyes of the people. In the recent past, there were various ways of committing fraud. These frauds included backdate recording of income, fake recording of income that was never received. Therefore, this process of interpreting the accounts turns up to provide diverse solutions. There are a number of loopholes in the present system. The corrupt accountants take the advantage of these loopholes for committing fraud. There are various platforms through which frauds can be eradicated. To remove these frauds, sincere efforts are very important. So, especially the efforts would be given for improving the corporate governance. There is a need to develop and update the governance rules of India so as to reduce the potential failures on account of loopholes present in the corporate governance mechanisms of the country.

The major financial scams were found out in India in the early '90s when the LPG policy was implemented. So, this study has taken the cases of financial transgression

from the period starting from 1991 to the current year. It has been observed that there was an urgent need to bring changes in the regulatory framework of the country and its reporting practices.

4.3.1 Cases of Corporate Financial Transgression in India in Pre-convergence and Post-convergence period

The time period of 1991 to 2015 is the pre-convergence period as the convergence of IFRS in the form of Ind-AS occurred in India in 2015 although it was earlier scheduled for 2011 but it could not happen. The period of 2015 onwards is the post-convergence period till date. Therefore it is only the sixth year since the convergence has taken place. An important fact regarding the convergence is that the main purpose of bringing converged standards was to bring uniformity in accounting standards across the world so that it will result in multiple benefits for the economy of India. The destiny is this that convergence is its total infant stage in India and cases of financial transgression in India in pre convergence period and post-convergence period reveal the fact of its usefulness and importance which are discussed below:

Cases of Corporate Financial Transgression in India in Pre Convergence Period (1991-2015)

1. Harshad Mehta Scam

In this case, the Ready Forward deal (RF deal) was exploited to do the wrong. It is a secured short term loan for 15 days from one bank to another bank against government securities (like pawnbroker lends against jewellery or other valuables). In fact, RF is not a loan. Borrowing bank actually sells the securities to lending bank and buys them back at the end of the period of the loan at a slightly higher price. The difference is treated as interest. The settlement process in the government securities market became broker intermediated. Money from one bank's account is transferred to the broker's account and then to the other bank's account. In the RF deal, when a loan was given from bank to broker, it was still secured. The broker's function was to bring the buyer bank and seller bank together. He was to get a commission from the deal and nothing else. During the scam, the same thing did not happen. An alternative process was followed in the stock market in which deliveries of securities and

payments were made through brokers. Buyers and sellers even don't know each other. Brokers started taking a position in the market. They started trading themselves thereby imparting greater liquidity. Cheques were drawn by one bank on another bank "A/c Payee" now has to route through broker's account and privileged customers have direct credit. Brokers got direct transfers to avoid clearing delays. E.g. Rs 100 crore cheque with 15% interest and 2 days clearing delay will carry a loss of Rs 8 lac for the bank if they clear it without delay.

1. Brokers started this practice extensively. Therefore bank gets the money the same day and credits it to the account of the customer the same day.

2. Three routes were followed:

Route no 1: Some banks persuaded to part with cheques without actually receiving securities in return and funds were diverted to the stock market for a better return.

Route no 2: Replace the actual securities with a worthless paper- a fake bank receipt known as BR.

Route no 3: Forge the securities: PSU securities were represented by only allotment letters rather security paper.

RBI guidelines and SEBI directives were not followed in this case. Harshad Mehta was very well aware of the loopholes of the system and he exploited it through Ready Foreword Deal and Bank receipts. He also used price rigging in the stock market at that time.

2. C.R. Bhansali Scam

In this case, C. R. Bhansali launched attractive schemes so that people would invest in his company. People invested but he misappropriated the money of the people and transferred it to his companies so that he can use this money to invest in the stock market. But Bhansali was trapped in 1995 as there was a collapse of the stock market and he lost a huge amount i.e. Rs 1200 crores. He was not able to return the money of the investors. He also encashed fake interest warrants of SBI.

3. Ketan Parekh Scam

Ketan Parekh was a trainee at the Harshad Mehta office. A chartered accountant by training, Parekh came from a family of brokers, which helped him create a trading ring of his own. Harshad Mehta used to attract retail investors whereas Ketan Parekh did it through institutional investors in which mutual funds, insurance companies and hedge funds were involved. The reason was that institutional investors invest in bulk. Ketan Parekh arranged these funds from Promoters of the company and Banks to buy the securities. Mainly two banks were there from where funds were arranged: one was global trust bank (GTB) and other one was Madhavpura Merchantile co-operative bank (MMCB). At that time, according to RBI guidelines, banks can't give loans to any stockbroker more than Rs 15 crores but MNCB gave a loan of Rs 800 crores and GTB gave Rs 100 crores that too without collateral.

He used this money to buy shares but in fictitious names. He used the circular trading technique to rig the prices of the shares in the stock market. Not only this, he piled up the manipulated shares in financial institutions like UTI and LIC. When this scam came into the forefront, it directly impacted the private sector mutual funds and many of them were not sanctioned to launch and were postponed. SEBI banned Ketan Parekh from trading in the stock market till 2017.

4. UTI Scam

Once again, Ketan Parekh was involved in this scam and he invested much of UTI funds in K10 stocks. Not only this, UTI repurchased its equity, the NAV of which was Rs8 but they were repurchased at a much higher price of Rs14. As a result, small investors of UTI lost a huge amount. In 2001, the board of UTI took an unprecedented step of freezing the sale and purchase of UTI shares for 6 months and also declared a below expectation dividend of 7% which was even less than bank and post office rates at that time. Such stopping of sale and purchase was just like declaring notes of certain denominations to be invalid overnight and thereby public could not reinvest their money elsewhere. This resulted in the loss of public faith in UTI by 2 crore investors and the general public. The majority of investors include retired people, widows, pensioners and small savers.

5. 2G Scam

In this case, Irregularities were seen while awarding spectrum and that too by the then government. Licenses must be issued on the basis of the public auction but they were issued on the basis of first come first serve basis. Cut off date to apply for a license was preponed and that was purely illegal.

6. Satyam Scam

This case was one of the game changers in the history of the Indian Accounting system and corporate world. The highest level of creative accounting was seen with assets worth \$1.47bn which were overstated, non-existent cash balance in bank \$1.04 bn which was not there in the bank, and liabilities were reported at a lesser figure than actual. Purchase of ADRs was not shown in books of accounts. Operating profit was artificially boosted from 61 crores to 649 crores, reporting norms as per the accounting standards were also not followed.

7. Citibank fraud

Shivaji Puri & others of the Gurgaon branch of Citibank accused of siphoning off funds worth Rs 400 crores from the accounts of clients of the bank and were seen diverting it to the stock market.

8. Sahara Scam

SEBI guidelines were badly violated in the Sahara scam on a perennial basis. Also, the provisions of the Companies Act were not followed. Sahara group issued optionally fully convertible debentures without following the guidelines of SEBI. Para Banking activities were run by the company but no regulatory disclosures were made which were required for investor protection.

9. Speak Asia Scam

This scam was done by violating many things. Firstly, the company was started with a website that directs all queries to its Singapore address only but for that address, there was no mention of telephone number or any email id. When this scam came into the limelight, it was found that this company has changed its name three times in the past five years. Not only was this but it also blacklisted in Singapore for noncompliance

with regulatory provisions. There was no evidence of the legality of the business of this company because the nature of the business that this company was doing was multi-level marketing but they were showing as if it is doing some research in marketing for other organisations. The name of promoters and top management was never disclosed in its website.

10. Antrix Devas Controversy

It was a case of violation of government rules and regulations especially FEMA because the Share subscription agreement with foreign investors was not in line with FIPB. Financial mismanagement, conflict of interest, noncompliance of rules, favouritism, all were part of this controversy which brought a loss of goodwill for the Indian government in foreign countries.

11. Adidas Scam

It was also a case of use of creative accounting where over-invoicing worth Rs 147 crores was found and that too by former MD and COO. He also ran false franchisee programs, fudged accounts, secret warehouses. Accounting standards were violated and disclosure practices were not followed properly.

12. Coal Scam

This scam occurred at the Government level wherein a policy paralysis situation was seen. Coal blocks which are a scarce resource must be auctioned legally but they were allotted directly which led to estimated losses worth Rs 1.86 lakh crores as per the CAG of India.

13. Saradha Chitfund Scam

This was a case wherein a clear violation of the Companies Act and SEBI guidelines was noticed. Saradha Chitfund ran many companies and it issued secured redeemable debentures from the public although there is a prohibition under SEBI guidelines to raise capital from more than 50 persons without issuing a prospectus. SEBI challenged the Saradha group in 2009 when it started more than 200 companies and also resorted to cross-holdings.

14. NSEL Scam (National Spot Exchange Limited)

This scam was done by the promoter of NSEL Jignesh Shah. He used fake warehouse receipts for storing agricultural products that were traded through commodity exchange. In this way, he raised his commission from Rs 2000 crores in 2009 to Rs 3 lakh crores in 2013. The regulatory body for commodity exchanges FMC raised doubts in 2013 on the basis of many irregularities like profiteering and black marketing.

Cases of Corporate Financial Transgression in India in Post Convergence period (2015 onwards)

1. Vijaya Mallya wilful default case (Kingfisher Airlines)

In this case, Vijay Mallya, the owner of the UB group, invested money in Kingfisher Airlines. He could not get the license for international flights because of not having experience of 5 years in the aviation industry. So he acquired Air Deccan Company to go for international flights. Here he committed a mistake because Air Deccan was a low cost airline. He made it luxurious. He went for expansion and not for profitability. He converted it into Kingfisher red where one can buy low fare tickets whereas the main kingfisher was high fare tickets airlines. People shifted to Kingfisher Red. He gave almost the same facilities to Red. But when the fare of red started increasing, people shifted from red to other airlines for a low cost. Fuel price increased and the 2008 recession were the main reasons behind the bad position of kingfisher airlines. Bangalore and Hyderabad airports banned the flights of KA for nonpayment of landing charges. HP and BP and Indian oil also banned filling fuel but Indian oil asked for cash before filling fuel. This deal proved to be disastrous for him and he could not cope up with the persistent losses of Kingfisher Airlines which were continuing since the beginning of the deal in 2006. The famous tennis player Vijay Amritraj who was a director in this company resigned in March 2012 after the protests of delays by employees in salary payment. One of the independent directors Mr. Anil Ganguly also resigned after few days and Vijay Mallya was declared by banks as a wilful defaulter in February 2014. In 2015, A 17-bank consortium led by the State Bank of India takes over possession of the prized Kingfisher House, estimated to be worth Rs.100 crore. Only ICICI and HDFC recovered their dues because they had

mortgaged shares of the UB group. They simply sold these shares to recover their dues. Also, debt restructuring was done for KA. Its debts were converted into equity of 1400 crores by valuing shares of KFA at Rs 64.50 which was trading at only Rs 39.90 . The CBI questions Vijay Mallya as part of the ongoing probe into alleged wilful default of Rs.900-crore loan in conspiracy with unknown officials of IDBI bank. IDBI gave the loan at that time when other banks had lost their money of loan from KFA. In 2016, PNB declared United Breweries Holdings ‘wilful defaulter’ and in March 2016, Vijay Mallya ran away to the UK and he is still absconded.

2. PNB (Punjab National Bank)-Nirav Modi Scam

In this case, PNB employees colluded with Nirav Modi to issue fake LOUs(letter of Undertakings) on the basis of which company of Nirav Modi was given funds in the foreign country by foreign branches of few Indian banks namely Axis and Allahabad bank. LOU is a letter that acts as a guarantee and the buyer’s credit is normally against a 100% margin. Later it was found that no collateral security was given by Nirav Modi for consecutive seven years. Ultimately, the scam came into the limelight when an employee at PNB bank changed and a new manager took over where he saw and asked for the collateral and found that in the past, it was never given.

3. Rotomac

Mr. Kothari was the chairman and Managing Director of Rotomac, while his wife and son were directors of the company. Since 2008-09, Mr. Kothari’s companies had taken a loan of Rs 2,919 crores from a consortium led by Bank of India and comprising Bank of Baroda, Indian Overseas Bank, Union Bank of India, Allahabad Bank, Bank of Maharashtra and Oriental Bank of Commerce but the directors cheated the banks by diverting funds so raised in connivance with bank officials. The company used the credit sanctioned and disbursed for purposes other than execution of the claimed export orders which was a clear violation of FEMA.

4. IL& FS

The case of this company is very shocking. This company was promoted by three financial institutions namely Central Bank of India, HDFC and UTI in 1987 to provide loans to major infrastructure projects. LIC had a major stake of 25% in this

company. The crisis of this company came into the limelight when this company defaulted in payment of interest 7 times in 2018 and its debt-equity ratio was 18 times, it also defaulted on SIDBI loan of Rs 1000 crores and asked for financial help from the government. It could not recover afterward. RBI conducted a forensic audit of this company and the board of this company was ultimately replaced. A team of 6 members overtook the board where Mr. Uday Kotak was chairman of this new board.

5. DHFL

This scam came into the limelight when an article was posted in cobra post in January 2019 revealing that Rs 31,000 crores have been transferred from DHFL to its other companies. It was proved in a forensic audit. The companies to whom the amount was transferred, were shell companies and from there, money was shifted to promoters in fact. DHFL was unable to pay its debts during this period and also came into losses. There was a huge Asset-Liability mismatch in this company and it was apparent from the working that this company will come into trouble.

6. PMC Bank

This was a clear case of violation of banking norms where out of total NPA of 77%, alone 73% was of HDIL. A cooperative bank cannot give a loan to one single party beyond its capital adequacy ratio's limits. But PMC bank did it and also inadequate disclosures were made to RBI in this context.

7. Yes Bank

Loans are given to stress companies like Café Coffee Day, DHFL, Cox & Kings, Anil Ambani of Reliance, Essel Group and it resulted in NPA. The NPA increased during 2017 and even RBI noticed the same. RBI ordered Mr. Rana Kapoor to leave as CEO after January 2019. After that, Mr. Ravnet Gill became CEO in May 2019 but it could not change the fate of the bank and it collapsed. On 5th March 2020, RBI took charge of the bank.

The summary of various cases of financial transgression that happened in India has been discussed which clearly shows that a strong Corporate Governance mechanism is required for all the companies because the cases that occurred in the post-convergence period are due to poor corporate governance in those companies be it

Rotomac, IL & FS or DHFL. In the case of Rotomac and DHFL, funds were siphoned off to promoters' own accounts in other countries by taking the assistance of Shell companies. Although, around six lakh shell companies have already been closed down by the present government which is a welcome step to curb the menace of financial transgression. In the case of IL & FS, a strong failure of management on account of corporate governance is seen. Poor management resulted in default in the payment of interest on a number of occasions. The government was also a culprit for not letting the company to complete the projects in time. The top management of this company was busy mismanaging the affairs of the company as the meeting of the risk management committee which was to be done once a year, did not happen for nine years. The cases of Yes Bank and PMC bank are other examples of very weak banking systems wherein banks are still not following the guidelines issued by RBI. PMC bank exceeded its limits to provide loans to DHFL and few others whereas the Yes bank loan book shows that it always believed to give loans to risky companies, which later on could not survive even. The loans to such companies ultimately resulted in NPA. Important stressed companies who took a loan from Yes bank were Reliance industries (Anil Ambani Group), Cox and Kings, Cafe Coffee day, etc. All these companies are major defaulters of Yes Bank. So two major reasons are found to be the cause of corporate financial transgression namely:

- Failure on account of corporate governance
- Failure on account of the weak banking system

Even in the pre convergence period, the same reasons were also there along with other reasons which have already been discussed in the previous section.

The remuneration of the directors must be linked to it so that they would not indulge in fraudulent activities. Firstly, training must be given to all the academicians so that the younger generations get to know about working in this field. The challenge behind such convergence is the adoption of IFRS. SEBI must bring new regulations in this regard. It was noticed that the reasons behind these corporate scandals were the loopholes present in the regulatory framework of the country. In some cases, the unwillingness of the party in the Government to punish the wrongdoers has also been observed. Therefore, half-hearted changes in the framework did not add to improve

this situation. Indian economy trembled to its roots. Different regulations need to be formulated to avoid cases of financial transgression in the future. Modernisation and the upgradation of technology are helping criminals to find ways for committing fraud. It is required to have an understanding of the technology and formulate regulations on a regular basis. Quick and strict actions must be taken against these people committing frauds. Monitoring the procedures and regulatory framework would help reduce such corporate scandals.

4.3.2 Comparative Summary of pre-convergence and post-convergence financial reporting disclosure practices

If we look at the accounting standards issued in India for the companies by the Ministry of Corporate Affairs (MCA) and compare them with IFRS and Ind- AS, we will find, that there were only 32 standards prevalent in India in the pre-convergence period out of which one was abolished namely AS-8 (Accounting for research and development) and three standards vis AS- 30, AS-31 and AS-32 relating to Financial Instruments were not mandatory right from the beginning when they were introduced in India. The fact of the matter is that IFRS relating to financial instruments has been given much importance in the new regime of a common set of accounting standards in the post-convergence period. This will change the whole accounting world and the accounting itself. Not only this, in the post converged era, we can easily find that there are 40 Ind-AS which are nothing but converged form of IFRS for India. Now in comparison to 28 mandatory standards, we have 40 Ind-AS. The difference is apparent that now we have 12 more standards. The areas for which we never had a standard, we have got a standard for that, e.g. Ind AS 41 (Agriculture) and Ind-AS 113 for Fair value measurement. India is an agriculture dominating country but to date, we did not have any standard for agriculture. The fair value measurement concept was never seen as a great measure in the context of India, where we generally resort to historical costs. No doubt, there are a lot of problems in implementing the fair value measurement concept because measuring the fair value of anything is an uphill task. For this purpose, we need professionals, then training and then accuracy also. We will have to start from scratch for implementing all these things and because

of our weak regulatory bodies and system, we may be in trouble in getting the fair value of an asset.

Yet another dilemma is with regard to adoption is that converged IFRS are adopted for companies and they have been implemented. But the same is still missing for other key financial bodies that is banks and insurance companies. The corporate sector runs on the basis of funds it gets from banks and other financial institutions, then how can it be beneficial if we employ standards in one sector but do not employ it in another sector. It may result in other problems for the economy and the country, which nobody is bothering about so far.

4.3.3 Amendments made in regulatory framework in India after occurrence of cases of Financial Transgression

Table 4.7: Amendments made in regulatory framework in India after various Financial Transgression Cases

Sr No	Name	Amendments made in regulatory framework
1.	Harshad Mehta Scam	After the enactment of SEBI, it was not a statutory body but after the Harshad Mehta scam, SEBI was given statutory power by passing legislation under SEBI Act, 1992. Again in 1995, more statutory powers were given to SEBI to regulate the stock market. Not only this but many brokers of BSE were suspended who were acting as directors and other office bearers of BSE on the allegations of insider trading. Somehow, money grabbed by Mr. Mehta went to his legal heirs and successors, which in fact, should have been returned to the real owners.
2.	C.R. Bhansali Scam	CR Bhansali scam was nothing but the extension of the Harshad Mehta scam, so, it can be said that the only outcome of that scam and this scam collectively produced the powers for SEBI.
3.	Ketan Parekh Scam	This scam resulted in many changes in stock exchange workings in India. Firstly, the Trading cycle was reduced from a week to a day by SEBI. “BADLA” system for carrying forward in stock trading was banned. SEBI also withdrew the power of brokers to control the stock exchanges.
4.	UTI Scam	This scam resulted in the loss of faith of the general public in government because it wiped out the hard-earned money of many genuine long-term investors especially the old aged. Immediate steps were required to be taken by the government to control the damage. The government subscribed to the special unit scheme introduced for shares of PSU and the policy for UTI dividend was announced along with the fact

		that US-64scheme was covered fully under SEBI.
5.	2G Scam	This scam was also brought to the surface by CAG against the then ruling government ministers. After finding huge problems in this scam, the government made changes in regulating spectrum licenses and started E-auctions.
6.	Satyam Scam	Major reforms were introduced through the Companies Act 2013 because of this particular scam like Ind-AS applicability, certain other provisions similar to provisions in US SOX Act, 2002 like class action suit and whistleblower provisions were brought into it. Auditors were brought under NFRA, which is an oversight body to see the working of auditors. Also, rotation of audit firms was made mandatory after every 10 years. In December 2009, MCA also issued Corporate Governance guidelines based on this fraud.
7.	Citibank fraud	SFIO which was established in 2003 was accorded statutory powers in the Companies Act, 2013 to conduct multi-disciplinary investigations of major corporate frauds.
8.	Sahara Scam	SEBI (Issue of Capital Disclosure Requirements) Regulation, 2009 already came into existence and later Companies Act 2013 came into existence with stringent norms.
9.	Speak asia	Frauds like Citibank fraud and Speak asia frauds ensured something different kind of provisions for the companies who are involved in such frauds and giving statutory powers to SFIO was the outcome of these

		kinds of corporate frauds.
10.	Antrix Devas Controversy	Similar to speak asia, Citibank frauds, this was another case where even SEBI provisions and FEMA regulations were violated and this case brought disrespect for India in the international court of justice. So statutory powers to SFIO can be considered as an indirect outcome of this case along with other cases mentioned above.
11.	Adidas Scam	Ind AS applicability was made mandatory in 2016 which is said to be more transparent than earlier accounting standards.
12.	Coal Scam	Coal block e-auctions started after the occurrence of this case at the level of the Government of India
13.	Saradha Chitfund Scam	SFIO was given statutory wings in the Companies Act 2013 and also SEBI was already vested with many powers, due to which they always demanded the documentary evidence of wrongdoings of the company.
14.	NSEL Scam (National Spot Exchange Limited)	SEBI (Prohibition for insider trading) regulation, 2015 & SEBI (LODR) Regulation, 2015 were brought into being to show more transparency. The government banned the E-series system. The government formed the Arvind Mayaram panel and FMC was shifted to the finance ministry, earlier it was under the consumer affairs ministry. In January 2015, the Economic offense wing (EOW) and ED attached assets of NSEL to realise them so that money can be refunded to investors.

15.	Vijay Mallya wilful Default case (Kingfisher Airlines)	This case was an eye-opener for the Indian corporate world and government because the culprit ran away when he was found guilty. Thus putting a question mark on the ruling government and there was a huge hue and cry among the public. The role and number of independent directors were already increased in the Companies Act, 2013 and SARFAESI Act 2002 was replaced with a new amendment bill 2016 with more stringent provisions.
16.	PNB (Punjab National Bank)-Nirav Modi Scam	Amendments were made in SARFAESI Act, 2002 by bringing in 2016 “Enforcement of Security Interest and Recovery of Debts Laws and Miscellaneous Provisions (Amendment) Act, 2016. Because of these, banks were able to recover a huge amount by selling the assets of Nirav Modi. Although the government of India still has no clue how to bring back Nirav Modi from the USA. It is a sign of weakness of our regulatory system that we have not very sound treaties with other countries.
17.	Rotomac	Siphoning off money taken as a bank loan for the company was seen in this case. No stringent action was taken by the government except the Income Tax Department attached four immovable properties of Kothari, three in Kanpur and one in Ahmedabad, Gujarat.
18.	IL & FS	No strict measure taken so far
19.	DHFL	No strict measure taken so far
20.	PMC Bank	No strict measure taken so far
21.	Yes Bank	No strict measure taken so far

4.3.4 Initiatives taken in India with regard to Corporate Governance in pre-convergence and post-convergence period

Pre-convergence period initiatives (Before year 2015)

After the Cadbury Committee report in the UK on corporate governance was published, the CII, ASSOCHAM, SEBI and MCA constituted committees from time to time to recommend guidelines for corporate governance.

All these committees not only gave good guidelines but also gave many suggestions to improve the corporate governance mechanism in India. A brief description of the same will help to understand the reforms made in corporate governance.

1998 Desirable Corporate Governance: A Code

This was the first initiative in the history of India on corporate governance. This was initiated by CII. The objective was very clear that a code is to be brought to develop and promote corporate governance so that it will be adopted by all the corporate entities, be it the public sector, private sector, banks or financial institutions. **1999**

Kumar Mangalam Birla Committee

Kumar Mangalam Birla Committee was set up by SEBI under the chairmanship of Kumar Manglam Birla of the Aditya Birla group to promote and raise standards of corporate governance in India. This report is considered to be the first of its kind which was quite comprehensive in its attempt to come out with a code of CG considering the conditions of Indian companies as well as the capital market. Because of the recommendations of this committee, clause 49 was added in the listing agreement in the year 2000 for the companies that want to come up with the public issue.

2000 Task Force on Corporate Excellence through Governance

In the year 2000, a broad based study group was formed by the Department of company affairs and was headed by Dr. P.L. Sanjeev Reddy, Secretary, DCA. This group was given the task of examining the ways through which corporate excellence on a sustained basis can be operationalized so as to achieve the twin objective of

having a global competitive edge as well as to develop a corporate culture in the country. This group finally suggested setting up of center for corporate excellence.

2002 Naresh Chandra Committee

The global troubles in the USA after the collapse of the corporate giants like Worldcom, Xerox, Tyco raised many questions and this led to bringing of Sarbanes Oxley Act (SOX), 2002 by the US government. As the collapse of these giants involved the collusion of the auditors with top management to let them collapse, so this Act came out with stringent measures for auditors in the US. The Indian government also wake up at that time because if the US could not escape from this collision which resulted in the near collapse of the US economy, then how a country like India can stop itself from becoming the victim. So MCA at that time constituted Naresh Chandra Committee to examine and recommend amendments in the law involving auditor-client relationship along with the role of independent directors.

2003 N. R. Narayana Murthy Committee

Kumar Manglam Birla Committee was set up by SEBI in 1999 wherein provisions relating to bringing clause 49 were included and again in 2003, SEBI analysed and felt that there is a need to look beyond. To achieve this purpose, it constituted a committee under the chairmanship of Shri N.R.Narayanmurthy for reviewing the guidelines issued earlier for implementing corporate governance and for also issuing revised clause 49.

2004 Dr. J. J. Irani Committee on Company Law

This committee was constituted by MCA under the chairmanship of Dr. J.J. Irani who was Director, Tata Sons, at that time. This committee was given the task of advising the government on the changes to be made in the Companies Act, 1956 so that best practices can be adopted considering changes taking place in the national and international scenario. This committee came out with recommendations wherein the interest of stakeholders and investors were first talked about and asked to constitute “Stakeholders’ Relationship Committee” and also asked for civil consequences for non-performance on the part of directors.

2009 CII's Task Force on Corporate Governance

In 2009, CII made a task force to give its report on CG and it came out with voluntary recommendations that should be adopted by the industry.

2009 Corporate Governance Voluntary Guidelines

In 2009, MCA for the first time introduced voluntary guidelines on corporate governance. It was released believing it to be the need of the hour in the challenges faced by economies at the global level after the 2008 crisis. The focus of these guidelines was on the collaboration of all agencies working together for the wholesome and sustainable development of the country believing that only responsible businesses can help India to achieve its goal of all-around development. It also emphasised the harmonisation of financial performance with expectations of society and the stakeholders which should be reflected in the triple bottom line approach.

2010 NASSCOM Recommendations

NASSCOM is a trade association of businesses that constituted the Corporate Governance and Ethics Committee to give their recommendations which were issued in mid 2010. These recommendations focused on the stakeholders of the company.

2012 Policy Document on Corporate Governance

The MCA set up a Committee to formulate a Policy Document on Corporate Governance under the chairmanship of Mr. Adi Godrej, Chairman Godrej group. This committee then presented a report based on 17 guiding principles of corporate governance in which it sought to synthesize the diverse and innovative best practices based on international trends.

2013 Companies Act

The Companies Act, 2013 has introduced such changes in the context of CG which can be said to be a step forward from SEBI. Such overhauling was in relation to many points of CG like the related party, subsidiary company, associate company, independent directors, etc. Not only had this but the companies Act also brought provisions relating to the ratification of the appointment of auditors, disclosure and

compliance requirements. Perhaps, the motive behind it will have far reaching impact on the corporate world. SFIO was given statutory powers through the companies Act 2013 although it was formed in 2003.

Post-convergence period initiates (2015 onwards)

2015 SEBI (Listing Obligations and Disclosure Requirements) Regulations

Again in 2015, SEBI notified LODR regulations, 2015 for the listed entities with a view to consolidate and streamline the provisions of existing listing agreements for different segments of the capital market.

2017 Uday Kotak Committee

SEBI again formed a committee in 2017 under the Chairmanship of Mr. Uday Kotak with the aim of improving standards of corporate governance of listed companies in India. This committee was asked to give its recommendations on the issues pertaining to the following:

- Issues relating to the active participation of Independent Directors in the matters of the company;
- Related Party Transactions and its disclosures and safeguards in relation to such transactions;
- Auditing practices followed by listed companies
- Accounting related issues of listed companies
- Issues relating to disclosure and transparency

Kotak Committee came out with a report submitting its recommendations on the various issues relating to CG, many of which were accepted without any modification. Others were accepted with certain modifications and with different timelines for implementing those guidelines. Some of the key recommendations those accepted were:

- Increasing Transparency -Enhanced Disclosure Requirements
- Disclosure of Utilization of Funds from Qualified Institutional Placement (QIP) /Preferential Issues

- Disclosures of Auditor Credentials, Audit Fee, Reasons for Resignation of Auditors
- Disclosure of Expertise/Skills of Directors
- Related party transactions were made to be disclosed on a half yearly basis and also allowed related parties to vote against a related party transaction.
- Mandatory Disclosure of Consolidated Quarterly Results with effect from Financial Year 2019-2020
- The chairperson and CEO or MD shall be different and Chairperson will be a non-executive director and will not be related to MD or CEO. Although the committee recommended this for all listed companies having more than 40% public shareholding w.e.f. April 1, 2020, but it was done for the top 500 listed companies only.
- SEBI also accepted another recommendation relating to at least one independent woman director on the board to enhance gender diversity as well as the more active role of women in the corporate world.
- The quorum of a board meeting shall include one independent director due to the increased obligations of the board.
- Limit of the number of directors was increased to 6 from the previous 3. It was a welcome step because the purpose of it was to have directors with diverse backgrounds and skill sets. Although the committee recommended it for all companies, SEBI accepted it only for large cap companies.
- Expanded Eligibility Criteria for Independent Directors
- Enhanced Role of committees
- Enhanced Obligations on Listed Entities with Respect to Subsidiaries
- Secretarial Audit was made mandatory for all listed companies and their material unlisted subsidiaries according to recommendations of the committee.

4.3.5 Actions taken by regulatory body like SEBI and other measures

No doubt, many cases of financial transgression happened, but actions were taken by regulatory bodies like SEBI and others, which is depicted through following figure 4.12

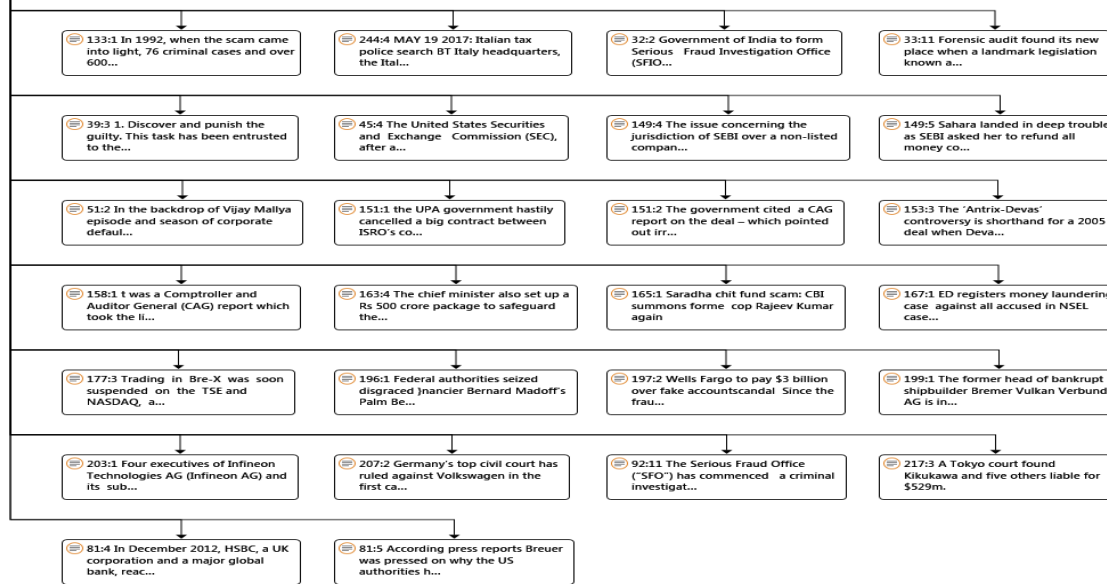
Figure 4.12 represents that the Government of India formed Serious Fraud Investigation Office (SFIO) under the Ministry of Corporate Affairs for investigation of Scandals by professional forensic accountants. SFIO can prosecute individuals as well as companies. Another major department of Government of India ED (Enforcement Directorate) registered Money Laundering Cases against NSEL Scam (Statement 32:2 by Wadhwa & Pal (2012), 92:11 by Kukreja & Gupta (2016), 167:1 in India Today)

In the aftermath of accounting scandals such as Enron, WorldCom and Xerox, US legislation enacted the Sarbanes-Oxley Act (SOX Law),2002 to counter the scandals. It provided high relevancy and compliance in the accounting industry (Statement 33:11 by Konar & Aiyar (-), 44:3 by Ponduri *et al.* (2014), 45:4 by Lemus (2014)).

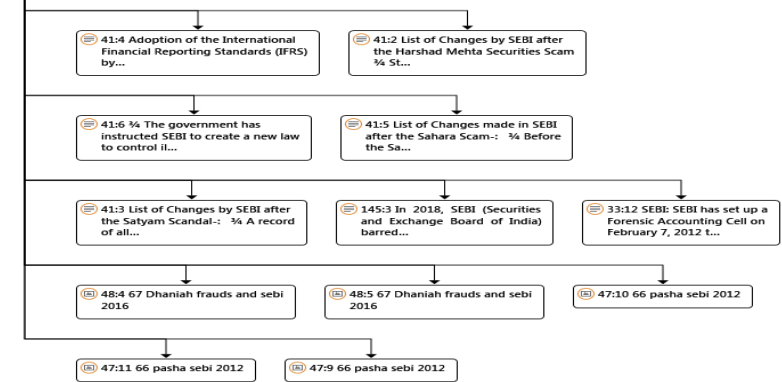
SEBI has taken many steps to tackle frauds including setting up a Forensic Accounting Cell, several strict guidelines to Companies after the Harshad Mehta Scam, Satyam Scandal & Sahara Scam including, were introduced to ensure that the companies disclosed all the information in an honest and trusted manner to the investors, a revised “carry forward” system replaced the “badla” system in Stock Exchanges, Regular monitoring of all transactions by SEBI between investors, shareholders, brokers and the company, Several audit norms were introduced like the mandatory rotation of auditors/ audit firms every 5 years.

◀ Action taken by reg body

◆ ARB-Action by reg body



◆ ARB-action by SEBI



◆ ARB-measures

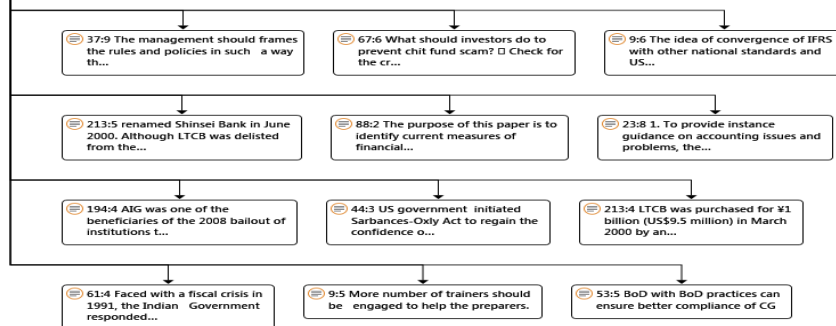


Figure 4.12: Actions taken by regulatory body like SEBI and other measures
Source: Author's calculations

SEBI now has the right to retrieve and investigate the telephone records, etc. with respect to any securities investigation etc. (Statements 33:12 by Konar & Aiyar (--), 41:2, 41:3, 41:4 & 41:5 by Chandok (2015)).SEBI barred Price Waterhouse from auditing any listed company in India for 2 years as it did not find out the irregularities which caused Satyam Scam. SEBI also punishes Sahara as SEBI asked her to refund all money collected through the OFCD, along with 15% interest. This shows that SEBI has been a defender of Public Interest (Statements 145:3 in Wikipedia by 149:5 & 149:7 Libertatem News)

The government cancelled the contract hastily whenever they found irregularities from any sources like Journalism or any regulatory authorities. Antrix Devas Scam has been found by Hindu Business Line, 2G & coal scam has been found by CAG (Statement 151:1 & 151:2 in The Quint & 158:1 in India Today)

Insolvency and Bankruptcy Code 2016, a revolutionary act, has been enacted in the aftermath of Vijaya Mallya wilful Corporate defaults (Statement 51:2 by Valecha and Xalxo (-).

4.3.6 Outcome and Contribution

In this section, the cases of the financial transgression of India are discussed in detail along with pre convergence and post-convergence disclosure practices and also the amendments made in the regulatory framework so that the cases of financial transgression will not occur or at least can be minimized. The reasons for financial transgression have already been discussed in the explanation of the second objective. But amendments made in the regulatory framework reveals that in spite of taking corrective measures in the form of changes in the regulatory framework, cases could not be minimized rather in case of PNB Nirav Modi scam and Vijay Mallya wilful default case, both perpetrators ran to the UK and are still absconding. Not only this, but cases of PMC bank, DHFL crisis, IL FS crisis and Yes Bank crisis have proved that measures taken were not sufficient. Also, the banking system in India has still not adopted converged IFRS that is Ind-AS. It will not be exaggeration to say that Yes Bank, PMC bank, PNB Nirav Modi, all banking crisis emerged when banks have not adopted Ind-AS. There are abundance of disclosure requirements in Ind-AS. Have that been adopted, these scams could have unearthed earlier or they might not have

occurred. So there is a dire need to adopt Ind-AS in the banking system also in India. After going through the various points of developments on the issue of corporate governance, it can be said that the pace with which improvements have been seen is really tremendous as far as listed companies are concerned. Companies are feeling the heat of having these stringent measures being adopted, still, it is a big issue for the banks whether public or private and we must not forget that cases of financial transgression occur in connivance with banks and bank officials.

4.4 Objective 4: To Explore the Further Scope for the Refinement of Global Financial Reporting Practices & Regulatory Framework to Prevent Future Corporate Financial Transgression in India

In this competitive world, it is essential to identify and recognize what is the actual cause of financial transgression in India. In view of recent global developments and the economy, it is observed that the implementation of global financial reporting practices is very slow, and to reach this goal, brave-hearted effort will be needed with a strong determination and political will. Still in India, financial reporting is not helping in becoming a trouble-free country from financial transgression. Although the Indian economy is considered to be comparatively inward looking, yet it cannot remain isolated from developments happening globally, it has to be renewed on a regular basis and should create a systematic procedure. This directly affects the developments in our banking system. Indirectly, our banking system would be further affected because of the decreased industrial activity. It is required to have a constant check on various events happening in other countries and take appropriate and timely steps for improving the system. There must be a preemptive action to add an entirely new dimension for the progress of our banking system, as this will help in planning for a longer-term vision.

In fact, it is noticed that there was considerable progress in implementing new systems in the banking and financial sector, considering that it will help in bringing new reforms. Improvement in the financial performance of the banking system is seen. Moreover, financial institutions must be susceptible to financial market turbulence. The process will include the up-gradation of the technical skills, bringing better technology for use, having maximum research and human capital. In the fast-changing scenario, it is observed that priorities must be changed as this will help in achieving the success of financial transgression. The face of banking in recent times is changing. India is witnessing an era of financial conglomeration building certain provisions for stopping the financial transgression. Besides, infusing the heightened competition, the government must also opt for bringing advancement in framing the regime of regulation. Banks and financial institutions have to bring certain changes in the regulatory framework as it will be more focussed, comprehensive, and efficient

from the environment. Thus, it is observed that there is an immediate need for introducing new technology and relevant know how in the banking and financial system, and moreover it is essential for people working therein to strengthen their skills and form new intellectual capital in the banking industry. The impetus was given for strengthening the internal financial systems. Moreover, it is said that there should be development in the standards and codes as that will help in creating the standardised financial systems. It is important to bring the Financial Sector Stability. The process began with the predominant involvement of the government. The private sector is automatically being covered in relation to corporate governance and other good parameters while searching for new codes and standards. It is required to identify and recognize that new codes are not the final goals but acts as instruments for enabling conditions in enhancing efficiency while ensuring financial stability. Actions must be taken legally in some aspects. In several areas, it is required to have fundamental changes in the legal and institutional systems. There should be various tools and techniques that must be developed to stop such financial transgression from happening in India. It is also recommended, if the rules and regulations are enacted properly then this will lead to a reduction of the financial transgression and India will be called the financial trouble-free country. It was proved that in India, there is progress in identifying the cause of bringing changes in international standards and codes in relevant areas. The next step is to provide information to all concerned stakeholders– policymakers, regulators and market participants – regarding the issues and to have a debate on issues in order to generate a consensus for the implementation of a globally recognized set of standards.

4.4.1 Legal Action in various cases of Financial Transgression

Not only this but also with all the refinements made in global financial reporting practices and regulatory framework, there is every possibility that we may still be in trouble as far as cases of financial transgressions are concerned because of the punishment that was given to the perpetrators in the various cases in India and the way they manipulated the system, it is highly susceptible that the points discussed above will not be that fruitful. The following table reveals the fact about the legal action taken in various cases of financial transgression in India.

Table 4.8: Legal Action in various cases of Financial Transgression in India

Sr no	Name	Legal Action by government/regulatory body against perpetrators
1.	Harshad Mehta Scam	Harshad Mehta was arrested by the Central Bureau of Investigation in 1992. He was charged with 76 Criminal Cases and 600 Civil action Suits. Harshad Mehta died because of a heart attack at the age of 48 with 27 cases pending against him. The rest of the cases were suspended on account of his death. Grabbed money was not released.
2.	C.R. Bhansali Scam	CR Bhansali escaped from India and went to Hong Kong with his family. Later, in 1997, he was arrested by the Central Bureau of Investigation in May. He spent three months in jail and was later released on bail.
3.	Ketan Parekh Scam	Ketan Parekh was prohibited to deal again in stock markets for 15 years till 2017. Being involved in Circular Trading with many banks and Insider trading he was sentenced to only one year imprisonment. Despite banned from trading, he used his network and was found to be engaged in trading which was found by CBI in 2014 and later on he was sentenced to only two years of imprisonment and a fine of up to Rs. 50,000 only.
4.	UTI Scam	An FIR had been registered against the then Chairman PS Subramanyam and other officials of UTI. Charges have been filed against the accused public servants and the company's Director as per the charge sheet filed by the CBI. The Chairman had been suspended from trading in mutual fund schemes but such suspension got lifted within weeks. The Chairman was forced to resign after CBI came into action.

5.	2G Scam	In 2012, the Supreme Court ordered the cancellation of 122 licenses granted in 2008 thereby calling the allocation unfair. All the prime accused, that is, A. Raja (Telecom Minister), M. Karunanidhi (Rajya Sabha member), Sidharth Behura(Telecom Secretary), RK Chandolia (A. Raja's Private secretary) were arrested first and later on given bail on account of lack of evidence generated under CBI Investigation.
6.	Satyam Scam	In January 2009, B. Ramalinga Raju confessed that he has manipulated the financial statements of Satyam Computers. He and his brother DVS Raju were arrested later on. After that, as per the orders of the Supreme Court, both of them were released on bail on account of failure in filing the charge sheet on time by CBI. In 2015, B. Ramalinga Raju and other 10 people were being charged and found guilty and sentenced to seven years of imprisonment along with the fine of Rs 55 million to be paid by B. Ramalinga Raju and his brother.
7.	Citibank fraud	The RBI imposed a penalty of Rs 25 Lakhs on Citibank for not abiding by the norms of banking. Shiv Raj Puri, the former relationship manager of Citibank, Gurgaon branch was arrested for being involved in a fraud case. He was found guilty and was imprisoned for two years and six months in prison along with a fine of only Rs 10,000. He was also sentenced to imprisonment of two years and six months under a case filed by Sanjeev Aggarwal against him, together taking the overall imprisonment to 5 years.
8.	Sahara Scam	Subrata Roy and the other two directors were arrested on account of contempt of court and failure to pay the rest of the two installments demanded by SEBI on time. On 26 March 2014, they were granted bail on

		the condition that the rest of the amount owed would be paid back.
9.	Speak Asia Scam	Ram Sumiran Pal had been arrested as he was the prime accused under this scam. FIR had been registered against him. The investigation carried on led to the freeze of at least 210 bank accounts. Presently Ram Sumiran Pal is living in Delhi and has been involved in the real estate business.
10.	Antrix Devas Controversy	The Antrix- Devas deal was annulled by the Indian Government. The case was filed in the International Court where Devas was being asked to receive Rs 4,400 crores as damages from the Indian Government in the first hearing held in 2015. This decision is given against Antrix by the International Chamber of Commerce's International Court of Arbitration (ICA). Former ISRO boss Nair had been charged for fraud but granted bail later on. Devas Multimedia was also found not contravening with the provisions of FEMA and receiving FDI from various overseas investors and promising them higher returns than the ceiling limit fixed by RBI. CBI has filed cases against both Devas and officials of Antrix.
11.	Adidas Scam	Charges were filed against the auditors of the company for the crime of falsifying the accounts of the company. Clean audit opinions have been given by them for Reebok for years 2008-2011. FIR has been filed against company against its former MD Subhinder Singh Prem and COO Vishnu Bhagat by Reebok. However, the case was dismissed by India Forensic team on account of lack of evidence to prove their fraudulent behaviour.
12.	Coal Scam	The CAG had filed against the Government for ineffective allocation of coal blocks during the period from

		2004 to 2009. However, all such claims have been cancelled by PM Manmohan Singh stating that no misdoing had been involved in it. All the coal block allocations were cancelled by Supreme Court in 2014. CBI lodged a complaint against former Jharkhand Chief Minister Madhu Koda on account of charges of corruption. His arrest was followed by his bail. Former Coal Secretary HC Gupta and 5 others had been held accused under the Indian Penal Code. In total, seven years of imprisonment had been asked for them. But, all of them got bail. The directors of PSPCL were sentenced to imprisonment for 3 years for the offense of criminal conspiracy. Both of them are asked to pay 40 lakhs each as a fine.
13.	Sharda Chitfund Scam	Sudipta Sen, Chairman and the executive of Sharda group, Debjani Mukherjee were arrested on account of this scam. Sudipta Sen was sentenced to three years imprisonment on account of failure to provide provident fund money which is due to its employees and a fine of Rs 10,000. Another six months imprisonment would be given if the fine is not paid. The non-bailable arrest warrant had been issued against Former Police Chief Rajeev Kumar for doing tampering with the evidence.
14.	NSEL Scam (National Spot Exchange Limited)	Former Chairman of FTIL, Jignesh Shah had been accused of this scam. He was supposed to be present at the meeting in which contracts were approved. A money laundering case had been registered against NSEL. Jignesh Shah had been jailed three times and got bailed under this case.
15.	Vijaya Mallya wilful Default case	In 2016, a consortium of banks filed a plea with the Supreme Court to stop Mallya from going abroad on account of him being declared as a wilful defaulter. But he had already fled to London. Various Non-

	(Kingfisher Airlines)	bailable arrest warrants had been issued against him. The case is now pending in London High Court for the extradition of Mallya from the UK.
16.	PNB (Punjab National Bank)-Nirav Modi Scam	<p>After the scam got unfolded, Nirav Modi fled from the country to the United Kingdom and got arrested there in March 2019. He is still fighting for his extradition. All his properties, whether in India or abroad, have been confiscated. The then Deputy Manager, Foreign Exchange, Gokulnath Shetty had been arrested by CBI for issuing fake or fraudulent LOUs. A penalty of Rs 5 crores had been levied by SEBI on Gitanjali Gems Ltd and its promoter Mehul Choksi on account of nondisclosures with what was happening.</p> <p>A penalty of Rs 2 crores had been levied on Punjab National Bank for not complying with the SWIFT guidelines and operations. Trials are still running for him in the UK.</p>
17.	Rotomac	Rotomac was declared as a wilful defaulter as per the proceedings laid down by the Reserve Bank of India. Separate cases have been registered against Vikram Kothari by CBI and Enforcement Directorate for swindling the money. Vikram Kothari had siphoned off the money by cheating the consortium of seven banks.
18.	IL & FS	The government has only changed the board and replaced it but otherwise, no other strict action was taken by it. There is a huge crash of the stock market as far as shares of finance companies are concerned. Mutual Funds that have invested in this company had public money invested in them. The performance of

		mutual funds automatically got poor.
19.	DHFL	No action is taken again the chairman of DHFL namely Kapil Wadhawan and Dheeraj Wadhawan ever since the scam revealed. Even 165 Mutual Funds that are exposed to DHFL have incurred huge losses because of problems going on.
20.	PMC Bank	The chairman of the bank was arrested when this scam came into the picture and there was a huge hue and cry among the public although nobody bothered when the chairman was flouting banking norms in giving loans.
21.	Yes Bank	Mr. Rana Kapoor, the CEO of the bank, was arrested by ED on 8th March 2020 after RBI took over Yes Bank on 5th March 2020. He is still behind bars. Although he throughout his career gave loans of huge amount to stressed companies which were never returned to the bank. Nobody in government or RBI cared about that. Although, the First hint of its bad working was revealed by UBS, a global financial services company.

Source: Author's Calculations (Sources details for the above table 4.7 is given in appendix 6)

Table 4.9: Legal Action in various cases of Financial Transgression in USA

Sr no	Name	Legal Action by government/regulatory body against perpetrators
1.	California Micro	Former President of California Micro Devices, Surendra Gupta and two Executives were accused under

	Devices	this case and had been asked to settle the charges. They agreed to pay \$3,86,762. Two former plant managers, Bhasker Rao and R. Ramana Penumarty were charged with insider trading. Surendra Gupta agreed to pay the fine of \$72,250, in order to settle the charges against him. He agreed to remain permanently barred from serving as an officer or director of the public company. Similarly, Rao and Penumarty were barred for five years from serving as an officer and director of a public company.
2.	Cendant	Chairman Walter Forbes was sentenced to imprisonment of 12 years. In addition to it, he was also penalized with a fine of \$ 3.275 billion. Also, E. Kirk Shelton, former Cendant Vice Chairman was convicted under the charges of conspiracy and fraud, therefore he was announced with imprisonment of 10 years and was ordered to pay \$3.27 billion as a fine to the Avis Budget Group.
3.	Waste Management Inc.	All 6 officers of the company were dismissed from their posts and they were also barred from serving as officer or director in any company permanently. Furthermore, the court penalized them jointly to pay approximately \$30 million. In addition to this, audit firm was also fined with a heavy penalty.
4.	Enron Scam	Kenneth Lay, Enron's founder and former CEO, was convicted of the charges of fraud and conspiracy but he died of a heart attack before sentencing. Former CFO Andrew Fastow cooperated with authorities and served 5 years imprisonment and was released in 2011. Another former CEO Jeffrey Skilling received 17.5 years imprisonment which was subsequently reduced to 14 years. He later paid \$42 million as a penalty to Enron victims and was released in 2019.

5.	Xerox Corp Scam	SEC charged Xerox corporation with a \$10 million penalty.
6.	Adelphia Communications	John Rigas, the founder of the company, was sentenced to 15 years imprisonment while his son Timothy Rigas, who was the company's executive, was imprisoned for 20 years. However, John Rigas was released in 2016 due to health issues.
7.	Tyco International	Dennis Kozlowski and Mark Swartz were sentenced upto 25 years imprisonment in which they would be eligible for parole after serving imprisonment of 8 years and 4 months. They were also ordered to pay \$134 million in restitution. In addition to this, Kozlowski was fined \$70 million and Swartz \$35 million.
8.	WorldCom Scam	CEO and president Bernie Ebbers was imprisoned for 25 years and CFO Scott Sullivan was handed 5 years imprisonment for his role in the scandal. He was fired in 2002 for doing improper accounting. Both David Myers (Controller and Senior President) and Buford 'Buddy' Yates (former director of Accounting) were imprisoned for 1 year and 1 day. Betty Vinson (former director of Corporate Accounting) was announced imprisonment of 5 months. The primary auditors, Kenneth M. Avery and Melvin Dick were barred from practicing accounting for 3 years and 4 years respectively. Jack Grubman, an analyst on Wall Street was punished also. He was barred from practicing his business in securities for life. Also, he was asked to pay a fine of \$15 million.
9.	Qwest Communications	Nacchio was sentenced to 6 years imprisonment for insider trading. He also had to forfeit \$52 million that he earned from insider trading. A fine of \$19 million was also imposed on him. A civil penalty of \$250

		million was imposed on Qwest Communications.
10.	Health south	Main accused Scrusby was announced imprisonment of 5 years but he got acquitted from all criminal charges. Former CFO William Owens was sentenced to 5 years imprisonment while 27 months imprisonment was given to another former CFO Weston Smith. He was required to pay \$1.5 million and to spend one year probation after his release from jail. Another CFO Aaron Beam suffered 3 months' imprisonment. 5 months imprisonment was given to former assistant controller Emery Harris.
11.	Refco	Phillip Bennett, former head of Refco, was sentenced to 16 years of imprisonment. He had been charged with conspiracy and fraud.
12.	AIG Scandal	AIG has to pay \$800 million which consists of disgorgement of \$700 million and a penalty of \$100 million. A bailout package was announced to save AIG as it was considered to be a too big company to fail.
13.	Bear Stearns	The company was sold to JP Morgan Chase for a price of \$2 per share.
14.	Lehmann Bros Debacle	No prosecution was initiated against any key executive. Former chairman and CEO Richard Fuld founded Matrix Private Capital Group in 2016 as an asset management firm.
15.	Madoff Securities International Ltd	Bernard Madoff's mansion, a yacht and a small boat were seized by federal authorities. He was sentenced to imprisonment of upto 150 years of his age.

16.	Fannie mae	In September 2008, Fannie Mae was taken into conservatorship of FHFA. CEO and Board of directors were dismissed and it was decided not to liquidate the company.
17.	MF global	The case of MF- global got closure after five years of investigations and negotiations. Jon Corzine (Chairman and Chief Executive of MF global) was accused under this case. He quit the post after the bankruptcy of the company. It has been decided by the federal regulators that \$5 million had to be paid by Corzine under the settlement. MF global's Former assistant treasurer Edith O' Brian was accused of the illegal transfer of customer's money into the bank accounts of MF global and a fine of \$ 5,00,000 as a civil fine and 18 months ban from the industry.
18.	Wells Fargo Account Fraud Scam	Wells Fargo was fined \$3 billion to settle the lawsuit and criminal prosecution. John Stumpf, who was formerly chief executive of the bank, was fined \$17.5 million.

Source: Author's Calculations (Sources details for the above table 4.8 is given in appendix 7)

Table 4.10: Legal Action in various cases of Financial Transgression in UK

Sr no	Name	Legal Action by government/regulatory body against perpetrators
1.	Polly Peck	Asil Nadir was sentenced to 10 years imprisonment for his theft from Polly Peck International.
2.	Bank of Credit &Commerce	Abedi, who was the founder of the bank, died in 1995 due to natural reasons. Bank was liquidated

	International (BCCI)	and no major player was brought to trial in UK or USA court.
3.	Mirror Group	It has been seen that Robert Maxwell was reported missing in 1991. His body was later found in the Atlantic Ocean and it was considered as suicide. His sons declared bankruptcy and thereafter they were brought to trial but eventually they were acquitted and the firm was liquidated.
4.	Baring Bank	Nick Lesson tried to escape by fleeing away to Malaysia, Thailand and Germany. But he was finally arrested in Frankfurt and extradited to Singapore where he was given 6 and half years imprisonment. He was released in 3 years because he was diagnosed with colon cancer which he survived ultimately. Currently, he deals in the stock market with his own money.
5.	Equitable Life's Life Insurance Scandal	Due to lack of evidence against Roy Ranson (Chief executive and actuary) was released from trials and he lived comfortable life after retirement.
6.	MG Rover Group	The company went into liquidation and its four directors - Peter Beale, John Towers, Nick Stephenson and John Edwards were barred from acting as a director for 6, 5, 3 and 3 years period respectively.
7.	Northern Rock	The Northern Rock bank was nationalised in the year 2008. Its chairman Matt Ridley was forced to resign from the post on account of harming the image of the British banking industry.
8.	Royal Bank of Scotland	RBS was penalised by the Justice Department to pay a penalty of \$4.9 billion to US authorities. RBS

	Group	was found accountable for an act of engaging in fraudulent conduct. However, UK authorities could not be able to take any action against RBS. The reason behind this was the regulator did not perform his role.
9.	Hp Fraud Case	Former CFO of HP, Sushovan Hussain has been sentenced to 5 years imprisonment and also fined \$4 million by US authorities. He was being ordered to forfeit \$6.1 million as per the decision of the US district judge. While Mike Lynch has also faced criminal charges which carried imprisonment up to 20 years. A civil fraud trial of \$5 billion was also running on both the persons in London's High Court. Lynch and former Vice President of Autonomy, Stephen Chamberlain were also charged by the US authorities over the issues of HP acquisition.
10.	Tesco	Tesco agreed to pay £235 million to settle the case investigated by SFO. £85 million was to be given to 10,000 investors in Tesco as compensation. Whereas two former executives of Tesco namely Chris Bush and John Scouler were charged with fraud but got away with such charges due to lack of evidence.
11.	BT Italian Division Scandal	225 million pounds were paid in order to avoid a court battle. The amount was paid by BT to its shareholders Deutsche Telecom and Orange. The investigation got closure after naming 23 suspects by the Milan Prosecutors Office.
12.	Carillion scandal	The Carillion scandal has led to the liquidation of this company. More than 3,000 jobs were lost at

		the company, and the collapse affected 75,000 people working in its supply chain. A criminal investigation has been demanded in 2019 which has yet not been granted. The bankruptcy of this company has a large impact on the UK industry so the government is taking time to make a final decision.
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Source: Author's calculations (Sources details for the above table 4.9 is given in appendix 8)

Table 4.11: Legal Action in various cases of Financial Transgression in Germany

Sr no	Name	Legal Action by government/regulatory body against perpetrators
1.	Balsam	The CEO and CFO of the company were sentenced to imprisonment of 8 and 10 years respectively. The audit firm which was the subsidiary of PWC was charged with a 60 million German marks penalty. The Vice-chairman of the supervisory board was also fined 5 million German marks.
2.	Bremer Vulkan Verbund	The company filed for bankruptcy and the government refused to aid it. Eventually, the company was liquidated and a trial on three former managers was booked on charges of embezzlement. The former head of the company, Friedrich was arrested to prevent him from leaving the country.
3.	Flowtex	Schmider and Kleiser, two former executives of the company, were imprisoned for 12 years and 9 years respectively. Former ex-manager Neumann received 7.5 years imprisonment and former CFO Schmitz received 6.5 years imprisonment.

4.	Comroad	Bodo Schnabel, the founder of the company, received 7 years imprisonment for charges of fraud and insider trading. His wife was also sentenced to 2 years for the charges of aiding and abetting. In 2005, a settlement was reached by the company and all cases against it were dismissed. It changed its name to Tracom Holding AG and started trading again.
5.	Philipp Holzmann Bankruptcy case	The company filed for bankruptcy in the year 1999 and after finding no way out regarding its revival, it was liquidated in 2002. Twenty Three thousand people lost their jobs with the collapse of the company.
6.	Infineon Case	Four executives namely Florian, Hefner, Schaefer and Corwin were charged with a fine of \$2,50,000 each and imprisonment from 4 to 6 months. Infineon Technologies AG was also fined \$160 million, being charged for its participation in the same conspiracy.
7.	Arcandor	Thomas Middelhoff was sentenced to 3 years imprisonment. He was convicted of Embezzlement and tax evasions.
8.	Schlecker	Anton Schlecker was sentenced to suspended two years imprisonment. He was also fined €54,000. His daughter Meike was imprisoned with a term of two years and nine months and son Lars was given imprisonment of two years and eight months on account of theft and deceit.
9.	Deutsche Bank	Deutsche Bank was fined with a penalty of \$2.5 billion by the US regulators and a \$340 million penalty by UK watchdogs. Criminal charges were imposed on 29 people. In addition to it, it was also ordered to

		dismiss its 6 London based employees from their respective posts.
10.	Volkswagen's scandal	It was decided by the Federal Court of Justice that the people who bought that model would certainly receive financial compensation from the company as reimbursement on account of software installed that manipulated emission tests. The company agreed to pay \$905 million under this agreement. Charges had been made against VW executives. Chief executive Martin Winterkorn resigned from his post on account of a breach of trust. The company is facing litigation in different countries worldwide.
11.	Wirecard Scandal	CEO Markus Braun was arrested for falsifying accounts. Although he got bail. An investor class action suit was filed against the company for failing to flag improperly booked payments. A criminal complaint has also been filed against auditors of the company.

Source: Author's calculations (Sources details for the above table 4.10 is given in appendix 9)

Table 4.12: Legal Action in various cases of Financial Transgression in Japan

Sr no	Name	Legal Action by govt/regulatory body against perpetrators
1.	Yamaichi Securities	The company declared its bankruptcy on June 2, 1999. Tsugio Yukihiro, the last chairman of the company, settled a lawsuit that was filed in Tokyo District Court. Yamaichi's executives, president and Chairman resigned in order to take responsibility for the scandal. The company was fined \$1,00,000 by New York Stock Exchange for lying to the investigators.

2.	Long-Term Credit Bank	LTCB relaunched itself as Shinsei Bank after 19 months of its collapse. LTCB's US Subsidiary was fined \$1 million and barred from trading in securities because various banking law violations had been witnessed. In May 1999, Takashi Uehara committed suicide after his bad deeds got public. LTCB President Onogi and two of the executive vice presidents were arrested for reporting false profits and allowing illegal dividends. Onogi was convicted under the case and is charged with an imprisonment of 3 years and 4 years at probation. While the other executives were convicted with an imprisonment of 2 years and 3 years of probation. However, in 2008, the Supreme Court of Japan overturned this decision.
3.	Nikko Cordial	Three executives were sued by Nikko Cordial for 3.4 billion Yen in 2007. The profits of the company are decreased by 32.9% after the scandal emerged. Citi Group acquired a major shareholding in Nikko Cordial for \$7.7 billion. Citigroup also settled the lawsuit which was against the three executives which led to the end of two year court battle.
4.	Kanebo	Four certified public accountants named Kuniaki Sato, Seiichiro Tokumi, Kazutoshi Kanda and Kazuya Miyamura were arrested on account of falsifying accounting reports. Kuniaki was given imprisonment for 18 months. Soichiro and Kazutoshi received imprisonment for only one year. Japan's Financial Services Agency ordered Chuo Aoyama PriceWater House Coopers to bring down its auditing business for two months. Kanebo's President and his deputy were given suspended jail terms under the same conspiracy.

5.	Livedoor	The company got delisted by the Tokyo Stock Exchange on April 14, 2006. In connection with this case, Hideaki Noguchi, an executive of HS Securities was found dead in a hotel room of Okinawa which was later labelled as suicide. Livedoor's Chief Financial Officer, Horie and presidents of two other subsidiaries were arrested and charges were pressed on them for accounting fraud followed by the arrest of Livedoor's temporary Representative Director Fumito Kumagai. Horie was sentenced to an imprisonment of 2.5 years. Criminal complaints of all the ex-executives were filed and they were given imprisonment of four years.
6.	IHI Corp	7,138 cases were unveiled after a proper investigation under this case. The scandal got deepened after the discovery of these new cases. The company was fined to pay 1.6 billion yen on account of accounting violations.
7.	Olympus corporation	Messers Kikukawa, Mori and Yamada were announced imprisonment and were sent to jail. They were given suspended imprisonment for three years. Kikukawa and five other board members were ordered by the Tokyo district court to pay more than \$500 million as damages. There was a whistleblower in this case that is President and CEO of Olympus, Michael C. Woodford. He was fired after this scandal emerged. Olympus was fined \$1.2 million for the practice of false accounting.
8.	Toshiba Accounting Scandal	A recommendation was made by Japan's securities watchdog that Toshiba should be fined \$59.8 million on account of accounting violations. The company was sued by the shareholders and damages nearly

		about 301. 99 million yen was demanded on the account.
9.	Kobe steel	An internal investigation of the company is promised by the company's CEO Kawasaki. Legal actions are being faced by the company separately in the US and Canada for the practice of wrongdoing. The CEO stepped down from the post as a result of this scandal in order to take responsibility for the scandal. Further, a civil suit has been charged on the company for compensation.

Source: Author's calculations (Sources details for the above table 4.11 is given in appendix 10)

4.4.2 Lessons and Preventions from Financial Transgression

There are many lessons learnt from the various cases of financial transgression happened in India as well as outside India. Based on those, many preventive measures are taken. The lessons learnt and the preventive measures taken are discussed through the following figure 4.13

Figure 4.13 represents that Fraud does not just ruin the reputations of the company; it looks also put a negative effect on the whole industry and even a country. So Corporate Governance needs to be stronger as it is feeble corporate governance which supplements the corporate governance (Statement 36:27 by Bhasin (2013), 62:8 by Usman (2017)).

In most cases, it has been found that if management had taken more proactive actions on risk management, many of the frauds could be prevented. It is also found that mere careful consideration of cash flow indicators could find many hints of irregularities that might prevent the liquidity problems of the firm. The accounting scandals at Worldcom and other companies provide strong evidence that auditing matters and good audit committee can prevent frauds (Statement 46:4, 46:5 & 46:6 by Mawutor (2014), 79:2 by DeFond & Francis (2005), 92:14, 92:15 & 94:21 by Kukreja & Brown (2016)).

Various ways mentioned for protecting frauds to commit like laws protecting whistleblowers are to strengthen. A greater level of autonomy to be provided to federal and market regulators than they presently have. Judicial reform to be done on a priority basis for the speedy and effective disposal of cases. The forensic accounting profession to be promoted which works speedy and effectively to find the fraud reasons and minimize the frauds. Education specialized in accounting studies to be added to the curriculum (Statements 43:8, 43:9 & 43:10 by Arrawatia & Pandey (2016), 44:7 by Ponduri *et al.* (2014), 45:7 by Lemus (2014)).

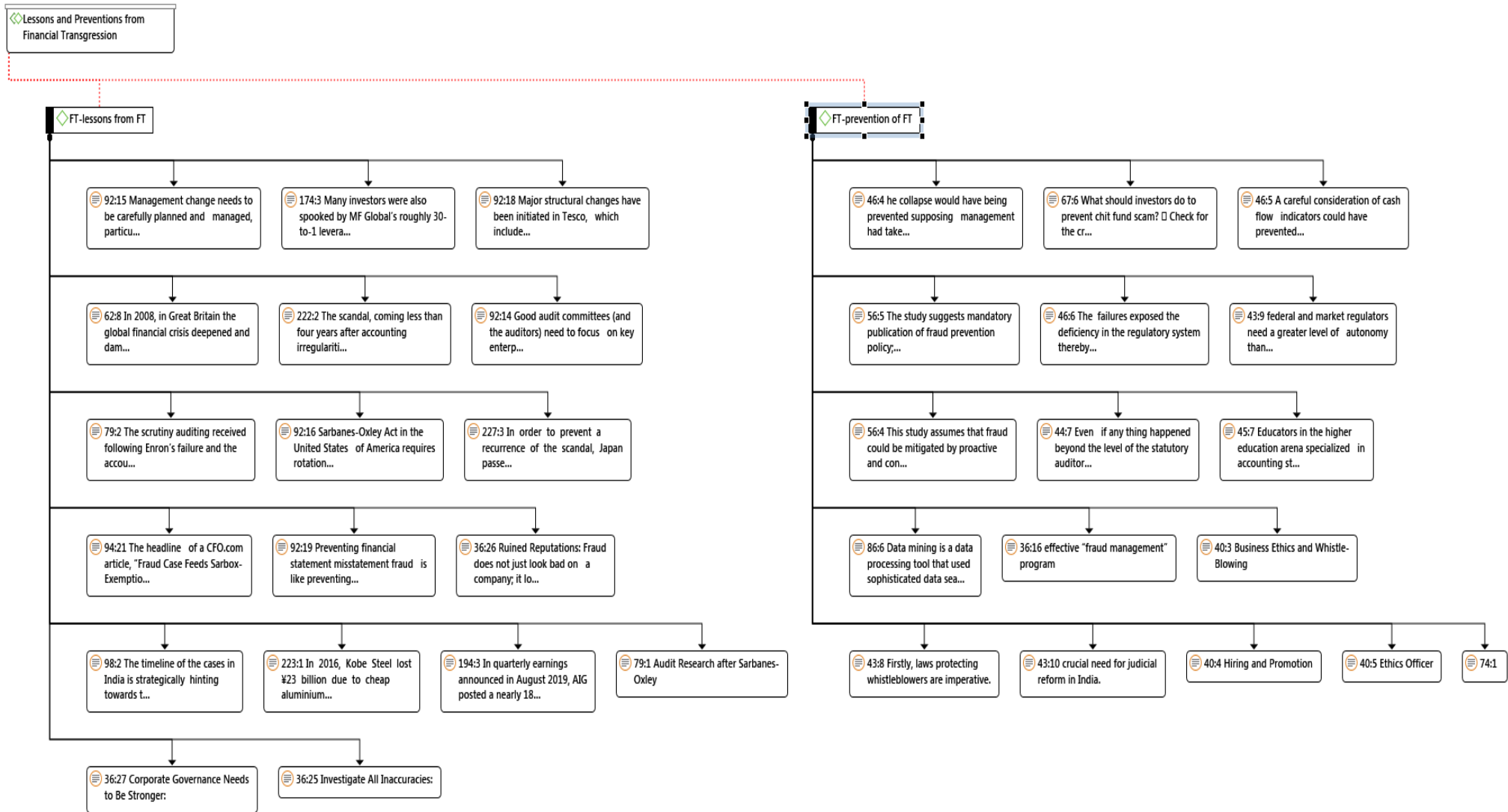


Figure 4.13: Lessons and Preventions from Financial Transgression

Source: Author's calculations

Various methods or ways are suggested for the prevention of frauds. It could be mitigated by proactive action by auditors, Compulsory publication of fraud prevention policy by the corporate and regular review of it, the constitution of special purpose corporate offense wing; recognition to companies for improved corporate governance; true adoption of International Financial Reporting Standards; due diligence by banks and financial institutions; compulsory appointment of professionals by shareholders and fixation of responsibility on independent professionals; intellectualization of audit committee (Statements 56:4 & 56:5 by Gupta & Gupta (2015))

4.4.3 Outcome and Contribution

In this section, special focus is given on the legal action taken in various countries by the court or regulatory bodies on the perpetrators of cases of financial transgression because the refinement in regulatory framework or global financial reporting practices is hidden in the action mentioned in this section. No doubt, the selected G8 countries have taken stringent action on many occasions but in the case of India, Nirav Modi and Vijay Mallya both are absconding when it was confirmed that both have committed huge frauds and willfully defaulted in paying the banks. Such is the plight of the system in India and can said to be a weak system. In all the cases discussed for various countries in the above study, no other country has allowed any perpetrator to leave the country and even put behind bars for long period in certain cases. It cannot be forgotten that when a person knows that he can escape after committing wrong, it is a huge motivation for him to do the wrong. This section clearly indicates that the level of punishment in India is linked with a weak system both regulatory and government. Whatever refined standards in the form of Ind-AS have been adopted, whatever changes have been made in various laws and whatever new practices of corporate governance are introduced, they are of no use until perpetrators are given due punishment.

Conclusion

On the basis of discussion on various objectives of this study, we can conclude that financial greed of people is increasing day by day and this fact is corroborated as per

Figure 4.8. Public money is used to commit fraud and the regulatory system is used to escape in India. There should be the coherence of punishing the wrongdoers simultaneously and he should not be allowed to escape. Moreover, public money should be taken care of at every cost whatever be the cost.

CHAPTER-5
FINDINGS,
CONCLUSION
AND SUGGESTIONS

Research is always conclusive when it is supported with findings and conclusions. In this section, the findings of this study are given along with conclusions drawn from the findings. No doubt, this study was based on the Indian corporate world and the ugly part of it that is financial transgression. To reach conclusions, the various cases of financial transgression are studied for selected G8 countries also. Because a comparable study is always better to signify many important things. After discussion on conclusions, suggestions based on the outcome of this study have been given which may help the corporate world, government, Indian economy, and society at large in bringing better results in the future by putting brakes on the cases of financial transgression. After the suggestions part, a model has been developed to prevent the cases of financial transgression. In the last part of this section, the further scope for research is also discussed.

5.1 Findings

- It is found that investors across the world want new and diversified opportunities to invest whereas companies are always in need of funds and try to raise their capital requirements through international operations. But there are apprehensions in the minds of investors and companies when they are to rely on international transactions.
- International Financial Reporting Standards (IFRS) have set rules and regulations that is why the financial statements of an organisation can said to be consistent, transparent, and comparable. By following these IFRS, investors and companies can win the trust of each other not only within the country but across the world.
- Precise and accurate information because of regularity in accounting standards practiced in the industry will help in the decision making process and will create an environment of trust, growth and sustainable financial stability in the global economy.
- Cost of capital will automatically be reduced and it will lead to the availability of higher liquidity for companies because of following a single set of accounting standards that is IFRS.

- Companies have to make financial reports by using local GAAPs and IFRS when they are operating in many countries. This leads to an increased risk of error and more and more auditing rules and regulations to ensure compliance.
- It is also found from this study that the benefits of standardisation of reporting practices across countries can be best obtained if IFRS are properly enforced as it also helps in detecting frauds happening in most developed nations.
- To accept a change is one of the barriers while implementing even a good practice. The same happened in the case of the adoption of IFRS. This study reveals that India had to adopt these converged standards in 2011 but it adopted them in 2015 and that too half-hearted because still, IFRS are not applicable on banks and insurance companies. Even the USA has not adopted it. Although his acceptance for the adoption of IFRS is very slow.
- Despite the fact mentioned concerning the adoption of IFRS, it is found in this study that the greed of individuals is increasing and persons involved in doing corporate frauds and misconduct are at the top level in the organisation. Whenever they are doing these mischievous things, they do severe damage to the organisation as well as to the economy of the country when such things result into a scam or fraud as happened in the case of Satyam, Nirav Modi, or Vijay Mallya.
- This study also reveals the fact that the government of India and regulatory bodies took many steps to abate the number of cases of financial transgression to check the recurrence of such acts which happen due to nexus between company officials, professionals, banks and bureaucrats. The present government closed down around 5.50 lakh shell companies till June 2018 which were almost one third of total registered companies and were not operative but were formed only for wrongdoings and siphoning off money from one company to another. This number further soared to 6.83 lakh companies up to June 2019 and it was around 36% of the total registered companies announced by the Finance minister in Lok sabha as mentioned in the leading newspaper The Economic Times.
- The latest cases of scams in 2019 and 2020 in India namely Yes Bank, IL & FS, DHFL, and PMC bank have revealed many things. PMC bank crisis was connected

to HDIL's bad loans. HDIL and DHFL both are run by the same family. DHFL siphoned off the money and transferred it to the accounts of promoters and it defaulted on other loan payments. IL & FS wherein huge equity was invested by LIC and some foreign government companies was a perfect case of mismanagement at the top level who never bothered for the company and it ultimately collapsed. YES Bank gave loans to stressed companies who were already under pressure in their businesses. Knowing this fact, Yes bank gave them loans and it resulted in NPAs. It was public money that was put at stake. People were deprived of their own money.

- It was also found that our banking, insurance, and police agencies in India are having technological flaws due to which cases like PNB-Nirav Modi happened
- Cases of financial transgression have not only deteriorated the financial structure of India but the other highly developed nations also, discussed in this study. Not only this, but the stock markets have also seen many ups and down because of these cases of scams whenever they occurred.
- It is found in this study that the level of punishment in various countries that are taken into account varies from country to country. In certain cases, it was more than 20 years imprisonment in the USA and also perpetrators were penalised with a huge fine. But in the case of other countries, the guilty were not punished at all but only fined. India is one such country, where the guilty were either not caught or were not fined or got absconded.
- Lack of political will to punish the guilty is also observed in the countries under study. Even in the USA, guilty were not punished in few cases but in India, the level of political will appears to be lacking considering either they were not punished or money could not be recovered from them.
- Two big business players namely Vijay Mallya and Nirav Modi absconded when there were reports in newspaper that they have done wrong. It is believed that there are hand-in gloves of politicians, bureaucrats, police agencies, and these perpetrators.

- The recent four cases of big financial transgression cases in India were found recently namely the Yes Bank crisis, PMC Bank Crisis, IL & FS crisis, and DHFL crisis. All these cases are interconnected. There were indications for all four that some crisis is coming in these organisations still nobody bothered. Loss is huge and it is in lakhs of crores of rupees. Public money was misused and violations of regulations were made in all these cases.

5.2 Conclusion

This study is done to find why India is in bad shape as far as the cases of financial transgressions are concerned because it not only affects the organisations but the economy of the whole country. Also we have seen many monumental problems because of occurrence of such cases. This study has proved many a things when it is compared with developed nations. No doubt, developed nations have also witnessed cases of financial transgression. They have incurred huge losses but their action was so quick in implementing the remedies that they are overcoming the problems occurring due to such cases. Moreover, the trouble with India is not that of using remedy but afterwards. Whenever remedy is taken, there is no proper follow up. In case of Nirav Modi and Vijay Mallya, both are absconded after they were found guilty. How they fled is really a question mark on the politicians and bureaucrats. Not only this, even after people are found guilty, they used the regulatory framework as a shield as in case of PMC Bank, when banking rules were flouted to give loans beyond limits, the persons to whom loans were given did not repay it but they were free birds. The punishment was given to general public when they were deprived to withdraw their money which was their whole life savings in few cases and same happened in case of Yes Bank.

There were good changes made in new Companies Act 2013 wherein provisions relating to whistle-blower policy, class action suits were added. Insolvency Code 2016 was brought to provide a shelter to the insolvent companies so that investors will not be affected. It has been seen that even after implementing bankruptcy code, this is being misused because companies are being sold at a very less valuation. This is a clear loss for investors and banks, as happened in case of Alok Industries which was acquired by Reliance Industries at around 18% valuation and Ruchi Soya that was

acquired by Patanjali that too at around 20% valuation. There is a need to check this problem, which may become huge in coming times.

Many committees were formed on corporate governance by SEBI from time to time under the chairmanship of renowned business tycoons. They gave their recommendations. Many were accepted but others were left. Most of the latest recommendations by Kotak committee in 2018 were accepted and implemented in phased manner. The outcome of which is yet to arrive in the coming years which will be another thing to watch in future for researchers. If we really want to reap the benefits of this study which concludes that whatever is implemented, be it IFRS, be it change in regulatory framework or be it any code on corporate governance, all should act in tandem. Present state of implementation of IFRS only for companies but not for banking and insurance sector is highly dangerous which may bring disastrous results in the coming future if not implemented, because there are always loopholes when the provisions are not implemented in all the organisations involved. These loopholes may not be removed deliberately because of political unwillingness or bureaucratic pressures to exploit it at some point of time. But if we really want development and want to see our country to be in the category of developed nations, we will have to remove these barriers which are discussed in this study. These are the reasons due to which our country could not come under category of developed nations, otherwise India has huge potential to be at the top at any point of time but we need to work very hard and to take stringent measures.

5.3 Suggestions

- Awareness programs to educate the stakeholders regarding utility of IFRS must be initiated at a large scale. The best way to do this task is to implement this as full time subjects in colleges and universities.
- The role of auditors in India needs to be redefined because every time when a scam occurs in an organisation, it is found that auditors have not played their role effectively yet no action is taken against them. Just like, USA changed and brought SOX Act, 2002, and very stringent conditions were imposed on auditors, India also needs similar kind of restrictions imposed on auditors. Although, National Financial Reporting Authority (NFRA) is a body which is

constituted by government of India to oversee the functions of auditors. It is a body which is formed on similar lines on which PCAOB was made in USA in 2002.

- The issue relating to Corporate Governance is progressing leaps and bounds but even after Kotak Committee recommendations wherein all recommendations were not accepted and applicability of those accepted were in phased manner which is happening in 2019 and 2020. There is a need to watch the outcome of applicability of such recommendations and immediate action would be required if there is flaw in any of the provisions.
- There is no benefit of implementing IFRS alone for the companies unless it is supported by implementation in the banks and insurance companies also because whenever a scam occurs, it involves banks also. So IFRS should be implemented in banks and insurance companies as early as possible but the decision is being deferred to implement IFRS in these sectors.
- During this period of Covid-19, when economies across the world are facing negative growth, it is the high time for India to do something extraordinary because it is at par with China as far as the population is concerned but economically, China is far ahead from India. In the present scenario, when China has lost its trust amongst world economies and multinational companies are running away from China, it is the time for India to capture this opportunity to bring those companies to India and to provide them necessary infrastructure so that automatic revenue generation can take place.
- A sound and disciplined regulatory framework creates trust among the society at large when business transactions are carried out across the borders. It involves procedures, rules, regulations, strong investor protection and good corporate governance. All these followed with good intentions and fear of being punished can stop the activities of financial transgression in the country. The intentions of bringing the things in black and white appears to be quick but the action taken on violation of such practices is very lazy in India. Fast Track courts can bring this action in quickest form and guilty can be punished at the earliest.

- We must not forget that this study very categorically reveals that what is level of punishment for scammers in India as compared to other countries. Vijay Mallya and Nirav Modi are absconding. Yes Bank CMD Rana Kapoor could be caught with difficulty. PMC bank chairman was caught but investors are victimised. Harshad Mehta and CR Bhansali both ditched SEBI and Government and public sector banks. They did it for years until they were trapped because of natural reasons. In other countries like USA, the guilty was punished with huge fines and imprisonment. No doubt intentions of guilty remain same, be it in India or in USA or any other country.
- Regulatory bodies should take corrective action as soon as it comes to its knowledge that something is going on in the company which may put that company in trouble in future as happened in case of Yes Bank when cobra post first posted it in 2015 that there is some crisis going on in the bank revealing the fact of loans to stressed companies but it took years for RBI to take necessary action.
- Exemplary Punishment and recovery of money at earliest from such perpetrators may be taken as action within the legal boundaries.

5.4 Model to Prevent Corporate Financial Transgression

Figure 5.1 represents a model developed on the basis of various cases discussed in this study along with the reasons for happening of such cases. It is evident that the problem of corporate financial transgression is huge. There is a need to check this problem if we really want to grow and develop. A model therefore has been developed to overcome this problem wherein it is mentioned from where the problem

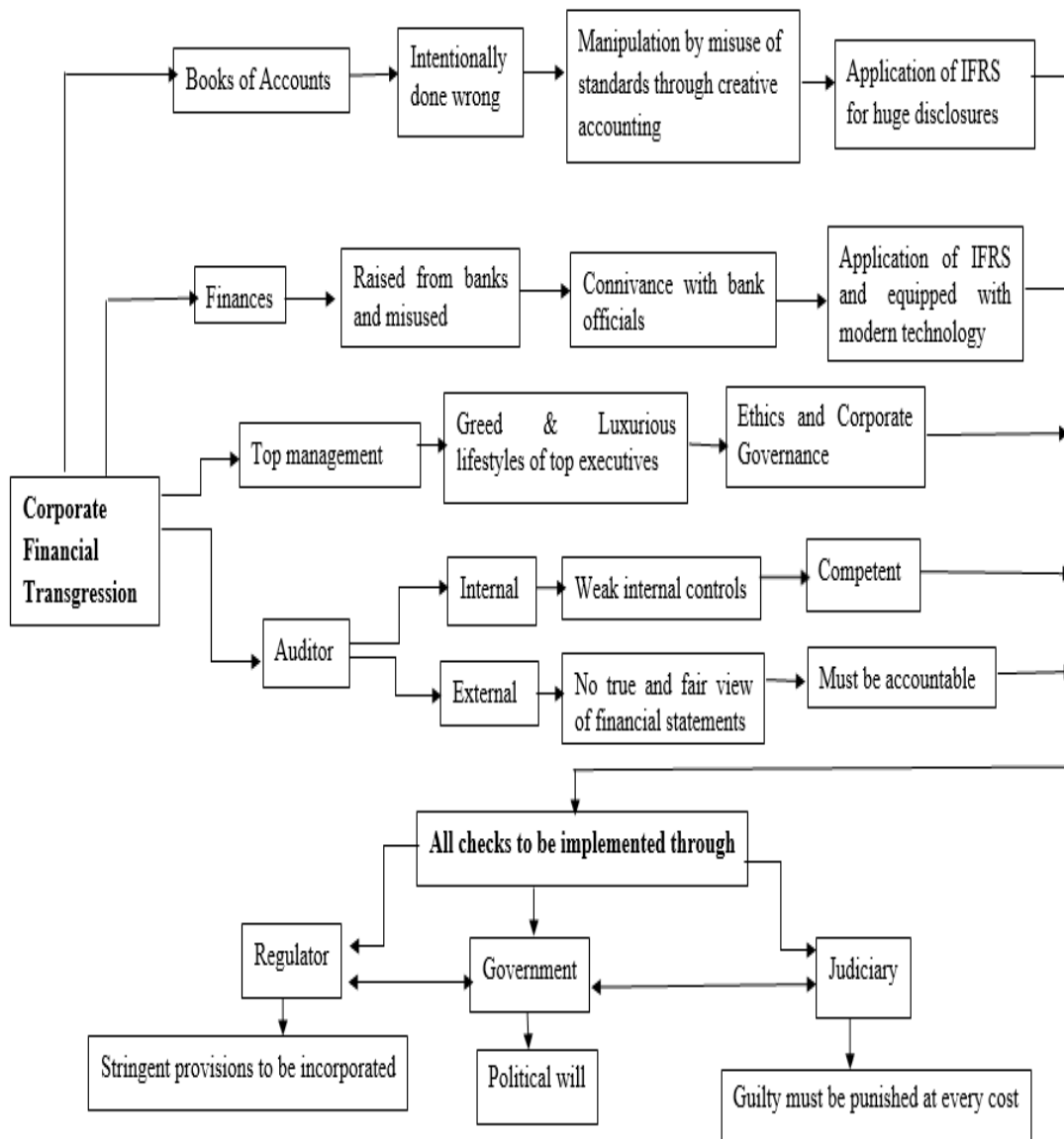


Figure 5.1: Model to Prevent Corporate Financial Transgression
Source: Author's calculations

of financial transgression can emerge in a company and the likely reasons for that are found to be Books of accounts, Finances, Top level management and internal and external auditors.

Books of accounts can be manipulated at the first instance while recording the transactions and that too by using creative accounting with the help of local standards

as happened in case of Satyam. So IFRS should be adopted as early as possible not for companies only but for banking and insurance companies also.

Finances are normally arranged from banks and when banks commit something wrong that is either due to non disclosure or due to old technology used by banks where loopholes are used to do the wrong. So banks should be modernized with new technology.

Also top level executives who normally are involved in committing frauds do such problems out of greed and to spend a luxurious life style. For this, they forget that it is the public money with which they are playing the games. Ethics are never followed by such top officials. So there is utmost need of corporate governance the provisions of which can ensure ethical conduct of top officials. The provision of independent woman director in the board by Kotak Committee is one such thing which also ensures gender diversity.

Then comes the role of auditors both internal and external. Although internal auditors are the employees of the company, so there are likely chances that if these are weak, then fraudulent activities may not be detected but as far as external auditors are concerned, they are independent and supposed to give true and fair view of the financial statements. Moreover external auditors are considered to be watchdog and not a bloodhound, even then in the all the major cases of financial transgression like Worldcom, Tyco, Xerox, Satyam, External auditors did not see the misdeeds of the top management and let it happen. That resulted into collapse of Arthur Anderson, a Chartered Accountants firm. A body namely National Financial Reporting Authority (NFRA) has been established to oversee the work of auditors but delay tactics let it form very late. There is a huge scope to improve the functioning at the level of Institute of Chartered Accountants of India. It should be done as early as possible before we met another huge cases of financial transgression. Also guidelines regarding internal auditors can be made and should be held accountable if something is committed wrong in the company.

All the above mentioned checks can be implemented with the help of Government only. It is the government who will have to take the initiative and will have to show the will and courage to implement all these measures. Only then the regulators and judiciary can act accordingly. Remember, regulator is dependent on government and

judiciary is bound by the rules and regulations of the country. So ultimately, it is the government who can initiate. Although, it is correct that government has done many things in the past but based on this study, it is clear that it was quiet less and late. One such big initiative which is required to be taken to prevent the cases of financial transgression is applicability of Ind-AS on banks and insurance companies because companies are doing wrong by misusing the funds which are arranged from the banks and public is the sufferer. Therefore, government should act fast for all the matters mentioned through this model.

5.5 Further Scope of Study

This study has been done to know the problems in our regulatory framework and reporting practices due to which cases of financial transgression are occurring in our country. This study is based on secondary data sources. Data regarding the cases of financial transgression is not available fully for the respective countries. Therefore, it was chosen from the secondary sources in the form in which it was found, and that too with limited information. Moreover, many new reforms are on the way during this period when this study is conducted, the impact of which can be known only in the coming future. It may have a positive or negative impact. Because these reforms have not been applied for all organizations involved in this process for example Ind-AS are still not applicable in the banking and insurance sectors. Kotak committee recommendations of corporate governance are being implemented on companies in a phased manner. So there is further scope to research the outcomes of the above mentioned points when they arose. Moreover, there is further scope to do research wherein practitioners in accounting and banking professionals can be involved.

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APPENDICES

Appendix 1 : Source links for Table 4.2

Table 4.2 :Cases of Financial Transgression in India

(Amount in US dollars \$)

Sr.No	Name	Year	Amt in Indian Rupees	Amt in US Dollars \$	Sources
1.	Harshad Mehta Scam	1991	3500 Crores	\$1.43 billion	https://www.thequint.com/explainers/where-is-the-rs-24000-crore-lost-in-the-harshad-mehta-securities-scam#read-more Retrieved on 10 th Nov. 2020 And Barua, S. K., & Varma, J. R. (1993). Securities Scam: Genesis, Mechanics and Impact. <i>Vikalpa</i> , 18 (1), 3-12.
2.	C.R. Bhansali Scam	1995	1200Crores	\$35.8 Million	https://www.indianmirror.com/indian-industries/indian-scams/bhansaliscam.html Retrieved on 10 th Nov, 2020 And Wadhwa, L., & Pal, V. (2012). Forensic Accounting and Fraud Examination in India. <i>International Journal of Applied Engineering Research</i> , 7(11).
3.	Ketan Parekh Scam	1999	1500 Crores	\$34.6 Million	Wadhwa, L., & Pal, V. (2012). Forensic Accounting and Fraud Examination in India. <i>International Journal of Applied Engineering Research</i> , 7(11).
4.	UTI Scam	2001	4800 Crores	\$1 Billion	Konar , E. M., & Aiyar, S. (n.d.). A Study On Forensic Accounting Profession In India And Around The World. <i>Tactful Management Research Journal</i> , 85-91.
5.	2G Scam	2008	1.76 Lakh Crores	\$38.33 Billion	https://www.news18.com/news/immersive/2g-scam-explained.html Retrieved on 15 th Dec., 2020 And https://www.financialexpress.com/industry/the-great-2g-scam-what-it-was-and-what-changed-after-

					that/984319/ Retrived on 20 th Dec., 2020
6.	Satyam Scam	2009	7800 Crores	\$1.64 Billion	Bhasin, M. L. (2013). Corporate Accounting Fraud: A Case Study of Satyam Computers Limited. <i>Open Journal of Accounting</i> , 2, 26-38 And Wadhwa, L., & Pal, V. (2012). Forensic Accounting and Fraud Examination in India. <i>International Journal of Applied Engineering Research</i> , 7(11).
7.	Citibank fraud	2010	400 crores	\$8.7 Million	https://www.livemint.com/Opinion/boyUkBCBuR0qJtc5pyTTMM/The-curious-case-of-a-Citibank-fraudster.html Retrieved on 15th Jan., 2021
8.	Sahara Scam	2010	25000 Crores	\$5.48 Billion	Konar , E. M., & Aiyar, S. (n.d.). A Study On Forensic Accounting Profession In India And Around The World. <i>Tactful Management Research Journal</i> , 85-91. And Chandok, S. (n.d.). The Growth of SEBI- From Harshad Mehta To Subrata Roy. <i>International Journal For Legal Developments & Allied Issues</i> , 1(2), 205-263.
9.	Speak asia	2010	2200 crores	\$48.2 Million	https://www.news18.com/news/business/speak-asia-arrests-652788.html Retrieved on 3rd Dec., 2020
10.	Antrix Devas Controversy	2011	4400 crores	\$0.91 Billion	https://economictimes.indiatimes.com/news/politics-and-nation/antrix-devas-deal-india-loses-arbitration-in-hague/articleshow/53395539.cms Retrieved on 5th Nov., 2020 And https://www.thequint.com/explainers/antrix-devas-deal-scam-or-government-cold-feet#read-more Retrieved on 5th Nov., 2020 And <a 511="" 546="" 930="" 947"="" data-label="Page-Footer" href="https://thewire.in/government/centre-</td> </tr> </table> </div> <div data-bbox=">191

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11.	Adidas Scam	2012	870 Crores	\$16.3 Million	https://www.indiatvnews.com/business/india/fraud-reebok-india-gurgaon-police-special-team-1926.html Retrieved on 8th Oct., 2020 And https://www.firstpost.com/business/reebok-scam-did-adidas-ask-accused-officials-to-fudge-accounts-332452.html Retrieved on 10th Oct., 2020
12.	Coal Scam	2012	1.86 Lakh Crores	\$33 billion	https://www.thehindu.com/news/national/coal-scam-chronology-of-events/article6350481.ece Retrieved on 22nd Jan., 2021 And Konar , E. M., & Aiyar, S. (--). A Study On Forensic Accounting Profession In India And Around The World. <i>Tactful Management Research Journal</i> , 85-91.
13.	ShardaChitfund Scam	2013	2500 Crores	\$41.3 Million	https://www.business-standard.com/about/what-is-saradha-scam Retrieved on 22nd March., 2021 And https://www.thehindu.com/news/cities/kolkata/saradha-chit-fund-scam-sc-defers-hearing-on-cbi-plea-to-quiz-wb-ex-police-commissioner-rajeev-kumar/article33912334.ece Retrieved on 22nd March, 2021
14.	NSEL Scam (National Spot Exchange Limited)	2013	5600 Crores	\$92.5 Million	https://www.livemint.com/Companies/tqpCgjzO75ndjk45SYnm3I/NSEL-scam-CBI-accuses-Jignesh-Shah-of-cheating-criminal-co.html Retrieved on 21st Jan., 2021 And https://economictimes.indiatimes.com/markets/stocks/news/nsel-an-employee-fraud-could-be-resolved-in-6-weeks-jignesh-

					shah/articleshow/70965436.cms Retrieved on 25th Jan., 2021
15.	VijayaMallya willful default case	2016	9000 Crores	\$1.34 Billion	https://www.business-standard.com/about/who-is-vijay-mallya Retrieved on 10 th Dec., 2020
16.	PNB (Punjab National Bank)-NiravModi Scam	2018	11400 Crores	\$1.63 Billion	https://youtu.be/AFHZx6WNJaI Retrieved on 13th Oct., 2020 And https://youtu.be/3may129EWck Retrieved on 5th Oct., 2020
17.	Rotomac	2018	3695 crores	\$52.8 Million	https://www.business-standard.com/article/finance/rotomac-pens-fraud-how-vikram-kothari-conned-7-banks-fir-details-revealed-118022000300_1.html Retrieved on 11th Nov.,2020
18.	IL & FS	2019	Rs 94000 crores	\$13.35 Billion	https://www.business-standard.com/about/what-is-il-fs-crisis Retrived on 12th Jan.,2021 And https://economictimes.indiatimes.com/industry/banking/finance/banking/ilfs-fraud-whistleblower-sought-to-uncover-it-in-2017-but-top-brass-covered-it-up/articleshow/69711422.cms?from=mdr#:~:text=IL%26FS%20group%20entities,-.The%20group%20had%20accumulated%20a%20debt%20burden%20of%20more%20than,dividend%20to%20the%20holding%20company. Retrieved on 20th Jan., 2021
19.	DHFL	2019	Rs 14046 crores	\$1.99 Billion	https://www.india.com/business/dhfl-directors-conned-over-rs-14000-crore-in-2-lakh-fake-loan-accounts-under-pm-housing-fund-says-cbi-4526612/ Retrieved on 25th Dec., 2020 And https://www.businesstoday.in/current/corporate/dhfl-scam-fake-accounts-fraud-borrowers-used-to-transfer-

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20.	PMC Bank	2019	Rs 4355 crores	\$60.69 Million	https://www.businesstoday.in/sectors/banks/pmc-bank-scam-3-more-directors-arrested-rs-4355-crore-fraud/story/391469.html#:~:text=The%20Mumbai%20Police's%20Economic%20Offences,in%20the%20case%20to%202012 . Retrieved on 16th Nov., 2020
21.	Yes Bank	2020	Rs 20000 crores	\$2.69 Billion	https://www.businesstoday.in/sectors/banks/yes-bank-crisis-ed-puts-rs-20000-crore-npas-blame-on-rana- Kapoor/story/398011.html Retrieved on 20th Jan., 2021

Appendix 2 : Source links for Table 4.3

Table 4.3: Cases of Financial Transgression in USA

(Amount in US Dollars \$)

Sr. No	Name	Year	Amount in US Dollars \$	Sources
1.	California Micro Devices	1994	\$139 Million	https://www.cfo.com/fraud/1999/04/california-c-suite-fraud-guilty-as-charged/#:~:text=In%20January%201995%2C%20forensic%20auditors,million%20in%20lost%20market%20value. Retrieved on 30 th Oct., 2020
2.	Cendant	1997	\$19 bn	https://www.nytimes.com/2001/02/28/business/former-cendant-executives-charged-with-fraud.html#:~:text=The%20S.E.C.%20said%20the%20accounting,it%20tallied%20at%20%2419%20billion.&text=the%20main%20story-.Mr.,which%20he%20founded%20in%201976. Retrieved on 15 th Nov., 2020
3.	Waste Management Inc.	1999	\$1.7 billion	https://thecompany.ninja/waste-management-scandal/#:~:text=In%20all%20this%2C%20the%20shareholders,of%20this%20fraud%20became%20public. Retrieved on 10 th Dec., 2020
4.	Enron Scam	2001	\$74 Billion	https://www.investopedia.com/updates/enron-scandal-summary/ Retrieved on 4 th Dec., 2020
5.	Xerox Corp Scam	2002	\$2 Billion	https://www.theguardian.com/business/2002/jun/29/2 Retrieved on 8 th Nov., 2020
6.	Adelphia Communications	2002	\$2.3 Billion	https://www.sec.gov/news/press/2002-110.htm Retrieved on 4 th Dec., 2020
7.	Tyco International	2002	\$600 Million	http://edition.cnn.com/2002/BUSINESS/asia/09/12/us.tyco/ Retrieved on 28 th Nov., 2020
8.	WorldCom Scam	2002	\$ 3.8 bn	https://www.nytimes.com/2002/07/22/us/worldcom-s-collapse-the-overview-worldcom-files-for-bankruptcy-largest-us-case.html . Retrieved on 11 th Dec., 2020
9.	Qwest Communications	2003	\$3 Billion	https://www.sec.gov/news/press/2005-36.htm Retrieved on 11 th Oct., 2020

10.	Health south	2004	\$2.7 Billion	https://www.reuters.com/article/us-healthsouth-sentence/judge-refuses-harsh-sentence-for-ex-healthsouth-cfo-idUSN2249680720070222 Retrieved on 1 st Dec., 2020
11.	Refco	2005	\$430 million	https://financefeeds.com/today-history-october-14-2005-refco-goes-bust-ceo-hides-430-million-bad-debts/#:~:text=Thus%20on%20October%2014%2C%202005,and%20%2416.8%20billion%20in%20liabilities . Retrieved on 2 nd Nov., 2020
12.	AIG Scandal	2005	\$150 million	https://www.investopedia.com/articles/economics/09/american-investment-group-aig-bailout.asp Retrieved on 18 th Dec., 2020
13.	Bear Stearns	2008	\$1.6 Billion	https://www.thebalance.com/bearn-stearns-collapse-and-bailout-3305613 Retrieved on 28 th Dec., 2020
14.	Lehmann Bros	2008	\$619 billion	https://corporatefinanceinstitute.com/resources/knowledge/finance/lehman-brothers/#:~:text=Lehman%20Brothers%20was%20forced%20to,bankruptcy%20filing%20in%20U.S.%20history . Retrieved on 7 th Oct., 2020 https://www.youtube.com/watch?v=J5V2G3YpSjs Retrieved on 7 th Oct., 2020
15.	Madoff Securities International Ltd	2008	\$64.8 Billion	https://en.wikipedia.org/wiki/Madoff_investment_scandal#:~:text=Prosecutors%20estimated%20the%20size%20of,as%20of%20November%2030%2C%202008 . Retrieved on 7 Oct 2020
16.	Fannie mae	2008	\$200 billion	https://www.investopedia.com/articles/economics/08/fannie-mae-freddie-mac-credit-crisis.asp Retrieved on 23 rd Nov., 2020
17.	MF Global	2011	\$1.6 billion	https://www.reuters.com/article/us-mfglobal-corzine-idUSKBN14P251 Retrieved on 17 th Oct., 2020
18.	Wells Fargo Account Fraud Scam	2016	\$185 Million	https://www.forbes.com/sites/jackkelly/2020/02/24/wells-fargo-forced-to-pay-3-billion-for-the-banks-fake-account-scandal/?sh=4a62f1cf42d2 Retrieved on 18 th Dec., 2020

Appendix 3 : Source links for Table 4.4

Table 4.4 :Cases of Financial Transgression In United Kingdom

(Amount in US Dollars \$)

Sr. No	Name	Year	Amt in US Dollars \$	Sources
1.	Polly Peck	1990	\$51.6 million	https://www.bbc.com/news/uk-19161940 Retrieved on 7 th Oct.,2020
2.	Bank Of Credit And Commerce International (BCCI)	1991	\$495 Million	https://www.washingtonpost.com/archive/politics/1991/07/28/bcci-scandal-behind-the-bank-of-crooks-and-criminals/563f2216-1180-4094-a13d-fd4955d59435/ Retrieved on 11 th Oct., 2020
3.	Mirror Group	1991	\$727.5 Million	https://www.nytimes.com/1992/06/24/business/maxwell-s-mirror-group-has-727.5-million-loss.html#:~:text=Mirror%20Group%20News papers%20P.L.C.%2C%20one,Maxwell%2C%20its%20previous%20controlling%20share holder. Retrieved on 19 th Nov., 2020
4.	Baring Bank	1995	\$1 Billion	https://www.cnbc.com/2020/02/26/barings-collapse-25-years-on-what-the-industry-learned-after-one-man-broke-a-bank.html Retrieved on 11 th Dec., 2020
5.	Equitable Life's Life Insurance Scandal	2000	\$2.21 Billion	https://www.bbc.com/news/business-10725923#:~:text=Unable%20to%20pay%20the%20C2%A3,insurer%20closed%20to%20new%20business. Retrieved on 7 th Oct., 2020
6.	MG Rover Group	2005	\$1.1 Billion	http://news.bbc.co.uk/1/hi/business/5211954.stm Retrieved on 4 th Dec., 2020
7.	Northern Rock	2008	\$5.13 Billion	https://en.wikipedia.org/wiki/Nationalisation_of_Northern_Rock#:~:text=Bank%20of%20England%20figures%20suggest,few%20days%20of%20this%20crisis. Retrieved on 7 th Oct., 2020
8.	Royal Bank of Scotland Group	2008	\$4.9 Billion	https://www.justice.gov/opa/pr/royal-bank-scotland-agrees-pay-49-billion-financial-crisis-era-misconduct Retrieved on 22 nd

				Dec., 2020
9.	Hp Fraud Case	2011	\$8.8 Billion	https://www.bbc.com/news/business-48260772 Retrieved on 11 th Jan., 2021
10.	Tesco	2014	\$424 Million	https://www.theguardian.com/business/2014/dec/22/tesco-pwc-inquiry-accountancy-watchdog-profit-overstatement Retrieved on 2 nd Nov., 2020
11.	BT Italian Division Scandal	2017	\$703.16 Million	https://www.reuters.com/article/us-bt-italy-exclusive-idUSKCN1Q216M Retrieved on 8 th Oct., 2020
12.	Carillion scandal	2018	\$1.6 Billion	https://www.complianceweek.com/accounting-and-auditing/kpmg-faces-306m-negligence-claim-over-carillion-audit/28903.article#:~:text=U.K.%20government%20liquidators%20are%20preparing,billion%20(U.S.%20%241.6%20billion). Retrieved on 8 th Dec., 2020

Appendix 4 : Source links for Table 4.5

Table 4.5 :Cases of Financial Transgression in Germany

(Amount in US Dollars \$)

Sr no	Name	Year	Amt in US Dollars \$	Sources
1.	Balsam	1994	\$2 Billion	https://www.nytimes.com/1994/06/09/business/worldbusiness/IHT-cost-of-new-german-scandal-put-at-2-billion.html Retrieved on 17 th Oct., 2020
2.	Bremer Vulkan Verbund	1996	\$685 Million	https://www.globalsecurity.org/military/world/europe/de-kaiserliche-marine-bremer-vulkan.htm Retrieved on 11 th Nov., 2020
3.	Flowtex	2000	\$1.81 Billion	https://www.dw.com/en/german-state-absolved-in-flowtex-case/a-1659823 Retrieved on 11 th Dec., 2020
4.	Comroad	2002	\$26.5 Million	https://www.dw.com/en/comroad-scales-down-figures-after-bosss-conviction/a-681183 Retrieved on 15 th Jan., 2021
5.	Philipp Holzmann Bankruptcy case	2002	\$225.15 Million	https://www.eurofound.europa.eu/publications/article/2002/holzmann-construction-company-files-for-bankruptcy-protection Retrieved on 28 th Dec., 2020
6.	Infineon Case	2004	\$384000	https://www.dw.com/en/infineon-management-knew-about-scandal/a-1652718#:~:text=Munich%20prosecutors%20this%20week%20confirmed,about%20the%20affair%20since%202004 Retrieved on 28 th Nov., 2020
7.	Arcandor	2009	\$1 Million	https://www.dw.com/en/ex-arcandor-boss-middelhoff-sentenced-to-3-years-prison-for-fraud/a-18062104 Retrieved on 11 th Oct., 2020
8.	Schlecker	2012	\$21.25 Million	https://www.dw.com/en/the-rise-and-fall-of-the-schlecker-empire/a-37824141#:~:text=Anton%20Schlecker%2C%20once%20one%20of,chain%20went%20bust%20in%202012. Retrieved on 17 th Dec., 2020

9.	Deutsche Bank	2015	\$80.4 Million	https://www.dw.com/en/deutsche-banks-biggest-scandals/a-54979535#:~:text=The%20bank%20paid%20out%20%24260,to%20pay%20over%20similar%20accusations. Retrieved on 11 th Nov., 2020
10.	Volkswagen's scandal	2015	\$33 Billion	https://auto.hindustantimes.com/auto/news/german-top-court-signals-volkswagen-faces-more-payouts-in-diesel-scandal-41588680376915.html Retrieved on 7 th Oct., 2020
11.	Wire card Scandal	2020	\$2.1 Billion	https://www.dw.com/en/wirecard-committed-elaborate-and-sophisticated-fraud-say-auditors/a-53942273 Retrieved on 11 th Jan., 2021

Appendix 5 : Source links for Table 4.6

Table 4.6 :Cases of Financial Transgression In Japan

(Amount in US Dollars \$)

Sr. no.	Name	Years	Amt in US Dollars	Sources
1.	Yamaichi Securities	1997	\$2.5 Billion	https://asianextractor.com/2015/07/21/the-7-biggest-corporate-scandals-in-japan/ Retrieved on 7 th Dec., 2020
2.	Long-Term Credit Bank	2000	\$4 Billion	https://asianextractor.com/2015/07/21/the-7-biggest-corporate-scandals-in-japan/ Retrieved on 7 th Dec., 2020
3.	Nikko Cordial	2006-07	\$23.2 Million	https://www.japantimes.co.jp/news/2007/04/25/business/nikko-cordials-fraud-sends-2006-profits-down/ Retrieved on 7 th Dec., 2020
4.	Kanebo	2004	\$1.85 Billion	https://www.japantimes.co.jp/news/2005/04/14/national/kanebo-committed-200-billion-yen-accounting-fraud/ Retrieved on 8 th Jan., 2021
5.	Livedoor	2006	\$500 Million	https://en.wikipedia.org/wiki/Livedoor Retrieved on 18 th Jan., 2021
6.	IHI Corp	2007	\$1.40 Billion	https://www.japantimes.co.jp/news/2008/07/10/business/fsa-fines-ihl-a-record-1-6-billion-for-falsified-earnings/#:~:text=The%20Financial%20Services%20Agency%20ordered,decided%20to%20pay%20the%20surcharge. Retrieved on 8 th Jan., 2021
7.	Olympus corporation	2014	\$273 Million	https://www.bloomberg.com/news/articles/2014-04-

				09/olympus-sued-for-273-million-after-13-year-fraud Retrieved on 4 th Nov., 2020
8.	Toshiba Accounting Scandal	2014	\$1.2 Billion	https://www.hindustantimes.com/business/toshiba-s-top-bosses-blamed-for-1-2-billion-accounting-scandal/story-8ZXpRParpPR5krf2WM21VN.html Retrieved on 19 th Oct., 2020
9.	Kobe steel	2017	\$1.6 Billion	https://www.theguardian.com/business/2017/oct/11/japan-kobe-steel-scandal-ford-toyota-honda-mazda-boeing Retrieved on 29 th Nov., 2020

Appendix 6 : Source links for Table 4.7

Table 4.7 : Legal Action in various cases of Financial Transgression in India

Sr. No.	Name	Sources
1.	Harshad Mehta Scam	https://www.thequint.com/explainers/where-is-the-rs-24000-crore-lost-in-the-harshad-mehta-securities-scam Retrieved on 5 th Nov., 2020 And https://economictimes.indiatimes.com/news/politics-and-nation/the-harshad-mehta-case-where-time-has-overtaken-justice-by-a-mile/articleshow/53052771.cms?from=mdr Retrieved on 1 st Nov., 2020
2.	C.R. Bhansali Scam	https://www.indianmirror.com/indian-industries/indian-scams/bhansaliscam.html Retrieved on 25 th Oct., 2020 And http://www.indiaforensic.com/CRBhansali.htm Retrieved on 26 th Oct., 2020 And https://mumbaiirror.indiatimes.com/mumbai/cover-story/after-fourteen-years-money-trickles-in-for-victims-of-crb-scam/articleshow/16130255.cms Retrieved on 25 th Oct., 2020
3.	Ketan Parekh Scam	https://tradebrains.in/ketan-parekh-scam/ Retrieved on 1 st Dec., 2020
4.	UTI Scam	http://www.cbi.gov.in/coffeetable/7.pdf Retrieved on 5 th Nov., 2020 And https://www.indiatoday.in/magazine/indiascope/story/20011231-uti-mutual-fund-scheme-rot-shook-2001-776370-2001-12-31 Retrieved on 5 th Nov., 2020 And https://www.rediff.com/money/2006/dec/11uti.htm Retrieved on 7 th Nov., 2020
5.	2G Scam	https://www.news18.com/news/immersive/2g-scam-explained.html Retrieved on 1 st Nov., 2020 And https://www.financialexpress.com/industry/the-great-2g-scam-what-it-was-and-what-changed-after-that/984319/ Retrieved on 3 rd Nov., 2020

6.	Satyam Scam	https://en.wikipedia.org/wiki/Satyam_scandal Retrieved on 3 rd Oct., 2020 And https://www.thehindu.com/specials/timelines/satyam-scandal-who-what-and-when/article10818226.ece Retrieved on 2 nd Oct., 2020
7.	Citibank fraud	https://www.thehindu.com/news/national/rbi-fines-citibank-rs-25-lakh-in-gurgaon-branch-fraud-case/article2158934.ece#:~:text=After%20discovering%20the%20fraud%2C%20the,in%20the%20US%20and%20Indonesia. Retrieved on 19 th Dec., 2020 And https://www.livemint.com/Opinion/boyUkBCBuR0qJtc5pyTTMM/The-curious-case-of-a-Citibank-fraudster.html Retrieved on 15 th Dec., 2020
8.	Sahara Scam	https://libertatem.in/featured/supreme-court-sebi-sahara-india-investor-fraud-case/ Retrieved on 1 st Nov., 2020
9.	Speak asia	https://www.news18.com/news/business/speak-asia-arrests-652788.html Retrieved on 31 st Oct., 2020
10.	Antrix Devas Controversy	https://www.thequint.com/explainers/antrix-devas-deal-scam-or-government-cold-feet Retrieved on 22 nd Dec., 2020 And https://economictimes.indiatimes.com/news/politics-and-nation/antrix-devas-deal-india-loses-arbitration-in-hague/articleshow/53395539.cms Retrieved on 20 th Dec., 2020 And https://thewire.in/government/centre-antrix-devas-probe-cbi-lawsuits Retrieved on 21 st Dec., 2020 And https://www.firstpost.com/business/antrix-devas-case-fifteen-points-to-help-you-understand-the-deal-2918312.html#:~:text=As%20per%20the%20agreement%2C%20Antrix,for%20its%20digital%20multimedia%20services.&text=The%20scandal%20first%20came%20to,agreement%20between%20Antrix%20and%20Devas. Retrieved on 24 th Dec., 2020
11.	Adidas Scam	https://www.financialexpress.com/archive/kpmg-arm-named-in-reebok-india-scam-chargesheet/1230952/ Retrieved on 25 th Oct., 2020 And

		<p>https://www.indiatvnews.com/business/india/fraud-reebok-india-gurgaon-police-special-team-1926.html Retrieved on 22nd Oct., 2020</p> <p>And</p> <p>https://www.firstpost.com/business/reebok-scam-did-adidas-ask-accused-officials-to-fudge-accounts-332452.html Retrieved on 27th Oct., 2020</p>
12.	Coal Scam	<p>https://en.wikipedia.org/wiki/Indian_coal_allocation_scam Retrieved on 30th Nov., 2020</p> <p>And</p> <p>https://www.indiatoday.in/india/story/explained-what-is-the-coal-scam-all-about-in-which-madhu-koda-is-held-guilty-1106352-2017-12-13 Retrieved on 28th Nov., 2020</p> <p>And</p> <p>https://economictimes.indiatimes.com/news/politics-and-nation/coal-scam-order-on-quantum-of-punishment-to-ex-secy-h-c-gupta-5-others-on-dec-5/articleshow/66918170.cms?from=mdr#:~:text=The%20CBI%20sought%20a%20maximum,a%20maximum%20of%20seven%20years. Retrieved on 22nd Nov. , 2020</p> <p>And</p> <p>https://www.ndtv.com/india-news/coal-scam-hearing-in-supreme-court-live-top-court-to-sentence-ex-jharkhand-chief-minister-madhu-koda-1787712 Retrieved on 19th Nov., 2020</p> <p>And</p> <p>https://economictimes.indiatimes.com/news/politics-and-nation/coal-scam-court-awards-3-year-jail-term-to-two-directors-of-company/articleshow/72056441.cms Retrieved on 17th Nov., 2020</p>
13.	Shardha Chitfund Scam	<p>https://www.hindustantimes.com/india-news/all-about-saradha-chit-fund-case-that-triggered-cbi-mamata-row/story-RQ3f1nppbjT2n90wFZNtfl.html Retrieved on 1st Dec., 2020</p> <p>And</p> <p>https://timesofindia.indiatimes.com/india/sardha-chit-fund-scam-all-you-want-to-know/articleshow/67831731.cms Retrieved on 5th Dec., 2020</p> <p>And</p> <p>https://www.indiatoday.in/india/east/story/saradha-group-chairman-sudipto-sen-gets-3-yr-imprisonment-in-chit-fund-scam-182138-2014-02-21 Retrieved on</p>

		28 th Nov., 2020 And https://www.dnaindia.com/india/report-saradha-chit-fund-scam-cbi-summons-former-kolkata-top-cop-rajeev-kumar-again-2791053 Retrieved on 29 th Nov., 2020
14.	NSEL Scam (National Spot Exchange Limited)	https://www.livemint.com/Companies/tqpCgjzO75ndjk45SYnm3I/NSEL-scam-CBI-accuses-Jignesh-Shah-of-cheating-criminal-co.html Retrieved on 4 th Oct., 2020 And https://www.indiatoday.in/featured/story/ed-registers-money-laundering-case-against-all-accused-in-nsel-case-214307-2013-10-14 Retrieved on 6 th Oct., 2020 And https://economictimes.indiatimes.com/markets/stocks/news/nsel-an-employee-fraud-could-be-resolved-in-6-weeks-jignesh-shah/articleshow/70965436.cms Retrieved on 2 nd Oct., 2020
15.	Vijaya Mallya wilful Default case	https://en.wikipedia.org/wiki/Vijay_Mallya Retrieved on 25 th Dec., 2020 And https://www.business-standard.com/about/who-is-vijay-mallya Retrieved on 30 th Dec., 2020
16.	PNB (Punjab National Bank)-NiravModi Scam	https://economictimes.indiatimes.com/news/politics-and-nation/pnb-scam-court-allows-confiscation-of-nirav-modis-assets/articleshow/76265635.cms Retrieved on 7 th Nov., 2020 And https://www.financialexpress.com/industry/banking-finance/https-indianexpress-com-article-india-nirav-modi-pnb-scam-lous-worth-rs-25000-cr-were-issued-fraudulently-belgian-auditor-bdo-6149311/1783850/ Retrieved on 9 th Nov., 2020 And https://www.livemint.com/news/india/pnb-fraud-case-sebi-slaps-penalty-of-rs-5-crore-on-mehul-choksi-others-11582817802910.html Retrieved on 11 th Nov., 2020 And https://economictimes.indiatimes.com/markets/stocks/news/rbi-slaps-rs-2-cr-penalty-on-pnb-for-violating-swift-norms/articleshow/68580061.cms?from=mdr Retrieved on 15 th Nov., 2020

17.	Rotomac	https://www.business-standard.com/article/finance/rotomac-pens-fraud-how-vikram-kothari-conned-7-banks-fir-details-revealed-118022000300_1.html Retrieved on 3 rd Dec., 2020 And https://www.thehindu.com/business/Industry/rotomac-promoter-flees-after-800-cr-bank-fraud/article22791408.ece Retrieved on 5 th Dec., 2020
18.	IL & FS	https://youtu.be/kCeudqFcmI Retrieved on 31 st Dec., 2020
19.	DHFL	https://youtu.be/vheT96CprPg Retrieved on 22 nd Nov., 2020
20.	PMC Bank	https://youtu.be/UIfcwR8-fQQ Retrieved on 21 st Dec., 2020
21.	Yes Bank	https://youtu.be/1-BxToZm0jE Retrieved on 11 th Oct., 2020 And https://youtu.be/tKklGieKY2Y Retrieved on 17 th Oct., 2020

Appendix 7 : Source links for Table 4.8

Table 4.8 : Legal Action in various cases of Financial Transgression in USA

Sr. No.	Name	Sources
1.	California Micro Devices	https://www.latimes.com/archives/la-xpm-1998-apr-02-fi-35142-story.html Retrieved on 23 rd Dec., 2020
2.	Cendant	https://www.cbsnews.com/news/former-cendant-boss-sentenced-for-fraud/ Retrieved on 27 th Oct., 2020
3.	Waste Management Inc.	https://thecompany.ninja/waste-management-scandal/ Retrieved on 1 st Nov., 2020
4.	Enron Scam	https://www.investopedia.com/updates/enron-scandal-summary/ Retrieved on 4 th Dec., 2020
5.	Xerox Corp Scam	https://money.cnn.com/2002/04/11/technology/xerox_fraud/ Retrieved on 7 th Nov., 2020
6.	Adelphia Communications	https://sites.google.com/site/group24caseadelphia/the-fraud-case Retrieved on 3 rd Dec., 2020 And https://en.wikipedia.org/wiki/Adelphia_Communications_Corporation Retrieved on 29 th Nov., 2020
7.	Tyco International	http://www.nbcnews.com/id/9399803/ns/business-corporate_scandals/t/ex-tyco-executives-get-years-prison/#.X1HDYdwzBIU Retrieved on 23 rd Dec., 2020
8.	World Com Scam	http://schuellerworldcom.blogspot.com/2012/10/key-players-involved-in-worldcom-scandal.html Retrieved on 22 nd Nov., 2020
9.	Qwest Communications	https://www.justice.gov/archive/usao/co/news/2007/July07/7_27_07.html#:~:text=Nacchio%2C%2058%2C%20the%20former%20chief,the%20Justice%20Department%20announced%20today.&text=On%20April%2019%2C%202007%2C%20a,%2452%20million%20in%20stock%20sales. Retrieved on 26 th Nov., 2020 And https://www.sec.gov/news/press/2004-148.htm#:~:text=The%20Commission's%20complaint%20all%20eyes%20that,unsupportable%20revenue%20and%20earnings%20projections. Retrieved on 24 th Dec., 2020
10.	Health south	https://www.reuters.com/article/us-healthsouth-sentence/judge-refuses-harsh-sentence-for-ex-healthsouth-cfo-idUSN2249680720070222 Retrieved on 27 th Nov., 2020 And

		http://www.nbcnews.com/id/9441981/ns/business-stocks_and_economy/t/former-healthsouth-cfo-gets-months/#.X1Hb89wzbIU Retrieved on 5 th Dec., 2020
11.	Refco	https://www.theguardian.com/business/2008/jul/03/refco.fraud Retrieved on 18 th Nov., 2020
12.	AIG Scandal	https://www.sec.gov/news/press/2006-19.htm Retrieved on 15 th Dec., 2020 And https://www.investopedia.com/articles/economics/09/american-investment-group-aig-bailout.asp Retrieved on 24 th Dec., 2020
13.	Bear Stearns	https://www.history.com/this-day-in-history/bear-stearns-sold-to-j-p-morgan-chase Retrieved on 21 st Oct., 2020
14.	Lehmann Bros Debacle	https://thehill.com/blogs/pundits-blog/finance/309544-why-have-no-ceos-been-punished-for-the-financial-crisis Retrieved on 7 th Oct., 2020 And https://www.investopedia.com/articles/economics/09/lehman-brothers-collapse.asp Retrieved on 10 th Oct., 2020
15.	Madoff Securities International Ltd	https://economictimes.indiatimes.com/news/international/us-authorities-seize-madoffs-mansion-after-taking-his-yacht/articleshow/4347642.cms Retrieved on 17 th Nov., 2020
16.	Fannie mae	https://en.wikipedia.org/wiki/Fannie_Mae#2008_%E2%80%93_3_crisis_and_conservatorship Retrieved on 3 rd Nov., 2020
17.	MF global	https://www.nytimes.com/2017/01/05/business/dealbook/mf-global-jon-corzine-penalty-settlement.html Retrieved on 11 th Oct., 2020 And https://www.reuters.com/article/us-mfglobal-corzine-2/mf-global-ceo-jon-corzine-quits-as-big-bet-fails-idUSTRE7A331A20111104 Retrieved on 18 th Oct., 2020 And https://www.reuters.com/article/us-mfglobal-corzine-idUSKBN14P251 Retrieved on 25 th Oct., 2020
18.	Wells Fargo Account Fraud	https://www.nbcnews.com/news/all/wells-fargo-pay-3-billion-over-fake-account-scandal-n1140541 Retrieved on 2 nd Oct., 2020

Appendix 8 : Source links for Table 4.9

Table 4.9 : Legal Action in various cases of Financial Transgression in United Kingdom

Sr. No	Name	Sources
1.	Polly Peck	https://www.theguardian.com/business/2012/aug/23/asil-nadir-10-years-jail-polly-peck Retrieved on 17 th Oct., 2020
2.	Bank Of Credit And Commerce International (BCCI)	https://en.wikipedia.org/wiki/Bank_of_Credit_and_Commerce_International Retrieved on 1 st Nov., 2020
3.	Mirror Group	https://moneyweek.com/505757/great-frauds-in-history-robert-maxwell Retrieved on 2 nd Oct., 2020
4.	Baring Bank	https://en.wikipedia.org/wiki/Nick_Leeson Retrieved on 25 th Oct., 2020
5.	Equitable Life's Life Insurance Scandal	https://www.standard.co.uk/news/equitable-manipulator-hits-back-6985724.html Retrieved on 21 st Dec., 2020
6.	MG Rover Group	https://www.theguardian.com/business/2011/may/08/mg-rover-directors-banned-collapse Retrieved on 18 th Nov., 2020
7.	Northern Rock	https://en.wikipedia.org/wiki/Nationalisation_of_Northern_Rock Retrieved on 13 th Oct., 2020
8.	Royal Bank of Scotland Group	https://www.justice.gov/opa/pr/royal-bank-scotland-agrees-pay-49-billion-financial-crisis-era-misconduct Retrieved on 11 th Dec., 2020 And https://uk.reuters.com/article/us-rbs-fca-idUKKCN1TE19T Retrieved on 17 th Dec., 2020

9.	Hp Fraud Case	https://www.theguardian.com/business/2019/may/13/ex-autonomy-cfo-sushovan-hussain-five-years-hewlett-packard Retrieved on 19 th Nov., 2020 And https://www.independent.co.uk/news/business/news/mike-lynch-autonomy-hp-fraud-criminal-charges-us-tech-a8660371.html Retrieved on 11 th Nov., 2020
10.	Tesco	https://www.nytimes.com/2018/12/06/business/tesco-fraud-trial.html Retrieved on 8 th Dec., 2020 And https://www.theguardian.com/business/2017/mar/28/tesco-agrees-fine-serious-fraud-office-accounting-scandal#:~:text=Tesco%20is%20to%20pay%20out,this%20deal%20requires%20court%20approval. Retrieved on 3 rd Dec., 2020
11.	BT Italian Division Scandal	https://in.reuters.com/article/us-bt-italy-timeline/timeline-bt-bosses-in-spotlight-in-italian-accounting-scandal-idUSKCN1RZ0J5 Retrieved on 3 rd Nov., 2020
12.	Carillion scandal	https://www.theguardian.com/business/2020/jan/15/carillion-collapse-two-years-on-government-has-learned-nothing Retrieved on 14 th April, 2021

Appendix 9 : Source links for Table 4.10

Table 4.10 : Legal Action in various cases of Financial Transgression in Germany

Sr. No	Name	Sources
1.	Balsam	https://books.google.co.in/books?id=P35zA_RsN9MC&pg=PT212&lpq=PT212&dq=balsam+fraud+germany+1994+case&source=bl&ots=7zWkkr1Xke&sig=ACfU3U2fAhqlkj2AkkgHfO8BkspBpCTRYg&hl=en&sa=X&ved=2ahUKEwjWueSHqoHsAhWZWisKHW2eBZsQ6AEwDXoECAEQAO#v=onepage&q=balsam%20fraud%20germany%201994%20case&f=false Retrieved on 24 th Oct., 2020
2.	Bremer VulkanVerbund	https://www.globalsecurity.org/military/world/europe/de-kaiserliche-marine-bremer-vulkan.htm Retrieved on 27 th Nov., 2020 And https://www.wsj.com/articles/SB835300403380105500 Retrieved on 26 th Nov., 2020
3.	Flowtex	https://www.michigansthum.com/news/article/Germans-Draw-Jail-in-Fraud-Case-7376218.php Retrieved on 28 th Dec., 2020
4.	Comroad	https://de.wikipedia.org/wiki/Comroad Retrieved on 22 nd Dec., 2020
5.	Philipp Holzmann Bankruptcy case	https://apnews.com/a8dfc96ac689ebe812bf342f462c8df2 Retrieved on 5 th Dec., 2020 And https://www.theguardian.com/business/2002/mar/22/globalrecession1 Retrieved on 2 nd Dec., 2020
6.	Infineon Case	https://www.justice.gov/archive/atr/public/press_releases/2004/206631.htm Retrieved on 25 th Nov., 2020
7.	Arcandor	https://in.reuters.com/article/us-germany-middelhoff-prison/former-bertelsmann-boss-sent-to-jail-for-embezzlement-idUSKCN0IY0V720141114 Retrieved on 21 st oct.,2020
8.	Schlecker	https://www.bbc.com/news/world-europe-42135434 Retrieved on 22 nd Nov., 2020
9.	Deutsche Bank	https://in.reuters.com/article/us-deutschebank-libor-settlement/deutsche-bank-fined-record-2-5-billion-over-rate-rigging-idUSKBN0NE12U20150423 Retrieved on 28 th Oct.,

		2020 And https://www.bloombergquint.com/business/ex-deutsche-bank-traders-convicted-in-libor-rigging-case Retrieved on 22 nd Oct., 2020
10.	Volkswagen's scandal	https://www.dw.com/en/volkswagen-scandal-top-german-court-rules-automaker-must-pay-dieseldgate-compensation/a-53556743 Retrieved on 7 th Dec., 2020 And https://www.bbc.com/news/business-34324772 Retrieved on 10 th Dec., 2020
11.	Wirecard Scandal	https://www.dw.com/en/wirecard-committed-elaborate-and-sophisticated-fraud-say-auditors/a-53942273 Retrieved on 11th Jan., 2021

Appendix 10 : Source links for Table 4.11

Table 4.11 : Legal Action in various cases of Financial Transgression in Japan

Sr. No.	Name	Sources
1.	Yamaichi Securities	<p>https://en.wikipedia.org/wiki/Yamaichi_Securities Retrieved on 28th Oct., 2020</p> <p align="center">And</p> <p>https://www.business-standard.com/article/specials/yamaichi-executives-quit-over-japan-financial-payoff-scandal-197081201105_1.html Retrieved on 21st Oct., 2020</p> <p align="center">And</p> <p>https://www.washingtonpost.com/archive/business/1993/02/26/sec-says-units-of-4-japanese-brokerages-broke-law/720bf29c-7ed6-48fc-a4ae-5776b520f20b/ Retrieved on 16th Oct., 2020</p>
2.	Long-Term Credit Bank	<p>https://www.japantimes.co.jp/news/2000/06/06/business/failed-ltcb-reopens-itself-as-shinsei-bank/ Retrieved on 28th Oct., 2020</p> <p align="center">And</p> <p>https://www.wsj.com/articles/SB840050446678581000#:~:text=On%20Tuesday%2C%20New%20York%20state,numerous%22%20banking%2Dlaw%20violations Retrieved on 24th Oct., 2020</p> <p align="center">And</p> <p>https://en.wikipedia.org/wiki/Long-Term_Credit_Bank_of_Japan Retrieved on 29th Oct., 2020</p>
3.	Nikko Cordial	<p>https://en.wikipedia.org/wiki/Nikko_Cordial Retrieved on 20th Oct., 2020</p> <p align="center">And</p> <p>https://www.japantimes.co.jp/news/2009/06/18/business/citi-settles-nikko-cordial-accounting-lawsuits/ Retrieved on 17th Oct., 2020</p>
4.	Kanebo	<p>https://www.japantimes.co.jp/news/2005/09/14/national/four-cpas-arrested-over-kanebo-scandal/ Retrieved on 6th Nov., 2020</p> <p align="center">And</p> <p>https://57slang.wordpress.com/2006/08/15/pwc-japan-unit-suspended-over-kanebo-fraud/ Retrieved on 10th Nov., 2020</p>
5.	Livedoor	<p>https://en.wikipedia.org/wiki/Livedoor Retrieved on 1st Oct., 2020</p>
6.	IHI Corp	<p>http://www.xinhuanet.com/english/2019-04/08/c_137960708.htm Retrieved on 29th Oct., 2020</p> <p align="center">And</p>

		https://in.reuters.com/article/us-toshiba-accounting-fine/japan-securities-watchdog-recommends-record-60-million-fine-for-toshiba-idUSKBN0TQ0IY20151207 Retrieved on 17 th Oct., 2020
7.	Olympus corporation	https://www.channelnewsasia.com/news/cnainsider/how-olympus-was-almost-brought-down-by-one-of-the-worst-9440206 Retrieved on 29 th Dec., 2020 And https://www.bbc.com/news/business-39741921 Retrieved on 26 th Dec., 2020 And https://files.eric.ed.gov/fulltext/EJ1053608.pdf Retrieved on 25 th Dec., 2020
8.	Toshiba Accounting Scandal	https://in.reuters.com/article/us-toshiba-accounting-fine/japan-securities-watchdog-recommends-record-60-million-fine-for-toshiba-idUSKBN0TQ0IY20151207 Retrieved on 13 th Dec., 2020
9.	Kobe steel	https://en.wikipedia.org/wiki/Kobe_Steel Retrieved on 8 th Oct., 2020 And https://www.cnbc.com/2018/03/06/kobe-steel-ceo-to-quit-over-data-fraud-scandal.html Retrieved on 17 th Oct., 2020 And https://www.bbc.com/news/business-44895564 Retrieved on 11 th Nov., 2020 And https://thediplomat.com/2018/05/japans-kobe-steel-faces-criminal-investigation/ Retrieved on 1 st Nov., 2020

Appendix 11: Codes, code groups and meaning of codes

Sr No	Code	Code Groups	Code used for (meaning of code)
1.	AA-accounting & accountant	Accountants and Accounting	Matters related with accountants and accounting
2.	AA-AS IAS IFRS	Accountants and Accounting	Local standards and international standards
3.	AA-history	Accountants and Accounting	History mentioned for any case or company
4.	AA-IND-AS GAAP AS	Accountants and Accounting	Converged standards and local standards
5.	ARB-Absconded after found culprit	Action taken by reg body	Those culprits who ran away to some other country
6.	ARB-Action by reg body	Action taken by reg body	Action taken by govt or reg body
7.	ARB-action by SEBI	Action taken by reg body	Action taken by SEBI in India
8.	ARB-measures	Action taken by reg body	Other measures used by regulatory body
9.	ARB-punitive action	Fin Transgression Action taken by reg body	Punitive action taken against perpetrators
10.	CG-CG practices	Corporate governance	Corporate governance practices
11.	CG-Ethics	Corporate governance	Ethics used in corporate governance practices
12.	CG-need and emergence of CG	Corporate governance	Why corporate governance was required and how it emerged
13.	CON-benefit of convergence	Convergence	Benefit of convergence
14.	CON-challenges in convergence	Convergence	The difficulties in adopting convergence
15.	CON-convergence in other countries	Convergence	Convergence in other countries
16.	CON-convergence of IFRS and US GAAP	Convergence	Convergence of IFRS and US GAAP
17.	CON-initiatives for convergence	Convergence	The initiatives taken by India for convergence
18.	CON-need for convergence	Convergence	Need for convergence
19.	CON-Reporting practices	Convergence	Related with disclosure in financial statements
20.	COUNTR REG-CA-2013	Countries and regulation	Companies Act 2013 of India
21.	COUNTR REG-Germany	Countries and regulation	Regulations in Germany

22.	COUNTR REG-India	Countries and regulation	Regulations in India
23.	COUNTR REG-International	Countries and regulation	Regulations in international arena
24.	COUNTR REG-Japan	Countries and regulation	Regulations in Japan
25.	COUNTR REG-regulatory body	Countries and regulation	Regulatory body in general
26.	COUNTR REG-UK	Countries and regulation	Regulations in UK
27.	COUNTR REG-USA	Countries and regulation	Regulations in USA
28.	CP-Charges against perpetrators	Charges against perpetrators	Charges against perpetrators
29.	CP-good work by perpetrators	Charges against perpetrators	Any award won for Good work by perpetrators
30.	FA-definition of FA	Forensic acc	Definition of Forensic accounting given by different authors
31.	FA-effectiveness of FA	Forensic acc	Effectiveness of FA
32.	FA-Forensic Accounting	Forensic acc	Forensic Accounting in general
33.	FA-history of FA	Forensic acc	History of FA
34.	FA-techniques of FA	Forensic acc	Techniques used in FA
35.	FA-uses of FA	Forensic acc	Uses of FA
36.	FA-Why FA emerged	Forensic acc	What was the need of emergence of FA
37.	FT-acquitted	Fin Transgression	Perpetrators who got acquitted in a case
38.	FT-Consequences of FT	Fin Transgression	What happened due to case of FT
39.	FT-fines and penalties	Fin Transgression	Fine and penalties in the case of FT
40.	FT-impact	Fin Transgression	Impact of the cases of FT
41.	FT-lessons from FT	Fin Transgression	Lessons learnt due to cases of FT (govt and individuals and regulatory bodies)
42.	FT-prevention of FT	Fin Transgression	How cases of FT can be prevented as suggested
43.	FTR-Creative Accounting	FT-REASONS	Way of committing FT
44.	FT-Reforms	Fin Transgression	Reforms done by various bodies after occurrence of cases of FT
45.	FTR-Failure of Corporate Governance	FT-REASONS	Reason of FT
46.	FTR-Fraud	FT-REASONS	Reason of FT
47.	FTR-FT	FT-REASONS	General matter related with FT
48.	FTR-govt policy failures	FT-REASONS	Reason of FT
49.	FTR-management	FT-REASONS	Reason of FT
50.	FTR-perpetrators of FT	FT-REASONS	The culprits behind committing FT
51.	FTR-personal benefit and	FT-REASONS	Reason of FT

	Greed		
52.	FTR-ponzi	FT-REASONS	Reason of FT
53.	FTR-reasons of FT	FT-REASONS	Various reasons of FT
54.	FTR-Suspicious activities	FT-REASONS	Suspicious activities that lead to case of FT
55.	FTR-techniques used in scams	FT-REASONS	The way of doing FT
56.	FT-statements given in a case	Fin Transgression	Statements given in a case by company or by individual
57.	FT-Victims of FT	Fin Transgression	Victims of FT
58.	SR-aspects covered in study	study related	What is covered in the study conducted
59.	SR-objectives of study	study related	Objectives of the study
60.	SR-outcome of study	study related	Outcome of the study
61.	SR-statements given by authorities	study related	Statements given by authorities in a case
62.	SR-survey report	study related	What survey reports say
63.	SR-type of study	study related	Type of study
64.	VIO-allegations	violation	Allegations leveled in a case
65.	VIO-Auditors	violation	Role of auditors in a case of FT
66.	VIO-insider trading	violation	When insider trading was used to commit FT
67.	VIO-misstatement	violation	Misstatements given to violate the regulatory provisions
68.	VIO-siphoning off money	violation	Public money siphoned off for personal benefit
69.	VIO-Violation	violation	Other violations
70.	VIO-violation of banking norms	violation	Violations of banking norms
71.	VIO-violation of SEBI norms	violation	Violations of SEBI norms
72.	VIO-weak RF	violation	Weak regulatory framework due to which cases of FT happened
73.	VIO-Whistle blower	violation	Role of Whistle blowers in a case of FT

PUBLICATIONS

Determining The Demand For Global Financial Reporting Convergence And Financial Regulatory Framework With Reference To India And Selected G8 Countries

Manav Aggarwal, Dr. Babli Dhiman

Abstract: There has been a significant increase in the acceptance of International Financial Reporting around the world. The purpose of this paper is to highlight the factors that are likely to influence the environment in which accounting operates through a case study of India and selected G8 countries (USA, UK, Japan and Germany), and provide an understanding of the prospects for the implementation of International Financial Reporting Standards (IFRSs). The trade and financial markets are expanding at a swift pace internationally. Due to increasing product/service exchange globally, and growth of multinational companies there emerged a need for reducing the differences in accounting across the globe. The International Accounting Standard Board (IASB) and some other major boards have made an effort to bring in common financial reporting standards accepted by many countries. Previous studies mention the international financial reporting convergences, but the studies did not indicate the underlying reasons behind such methods. The principal objectives of the study are (1) To assess the factors that create a demand for adopting the IFRSs and in India and the four G8 countries (USA, UK, Japan and Germany) (2) To explore and analyse the gaps in the existing financial reporting practices and regulatory framework that lead to financial transgression. Previous studies mention the international financial reporting convergences, but the studies did not indicate the underlying reasons behind such methods. The study gives an understanding about the scenario of convergence of IFRSs with respect to G8 countries and India.

Keywords: Adopting International Financial Reporting Standards (IFRSs), Corporate Governance, Company Law, Macroeconomics, Legal Principles, Regulatory Framework.

1. INTRODUCTION

The International Accounting Standards Board (IASB) had made an effort to establish globally accepted high-quality accounting standards in the form of International Financial Reporting Standards (IFRS). These IFRS were adopted by several accounting bodies all over the world. The International Financial Reporting Standards were used at both national and international levels. Not all countries have accepted these standards due to the environmental conditions in those countries such as political, social, ecological, and legal factors. The International Financial Reporting Standards were formed so that various companies operating in different countries could make financial statements and performance of the companies comparable. The worldwide diversity in the accounting standards made it difficult to comparison difficult, although some countries have accepted these standards, many nations are yet to adopt the IFRSs. The demand for accepting these standards are increased since the time of the announcement [28]. [28] conducted a study to analyze the different conditions which influence the nations to choose the IFRSs. The case study taken by these researchers was specific to Indonesia.

Two main components linking the adoption of these standards was the environmental factors and accounting disclosure requirements. Several factors that influence the adoption were divided into the economic, political, and legal system. The political scenario in the country was capitalist, and later, the country opened the trade barriers leading to foreign accounting principles, which were transparent and not in sync with the cultural environment. The economic and legal systems faced similar differences and made it difficult to accept the new global accounting standards. Similar to this case, the factors which affect the demand and adoption rate of IFRS by all nations are more or less the same. Another study by [17] also mentions the socio-economic and political dimensions of accounting change from country to country due to the cultural and environmental factors influencing them. Accounting information is the primary key for significant portfolio investments and analysis, and therefore they become essential for multinational companies and countries around the world to maintain a high quality global financial reporting standards [36]. A study by [36] proves the importance of adoption of IFRSs and how they impact the cross-border investment decisions, the impact of the accounting standards on the country's cash flows of both investee and investor, and asset location of global mutual funds. Many countries across the world have been adopting the IFRSs, but the procedures used for adopting the accounting standards differ from country to country. The convergence of the global financial standards changes across countries is due to several differences in the accounting environment of that country. Some of the factors affecting the adoption of these global standards are accounting standards existing in that particular country, the experience of the professional accountants, level of academic education and availability of vocational training, the regulatory framework of that nation [10]. This paper seeks to know the demand for the or global financial reporting convergence and financial regulatory

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framework specifically to India and the selected G8 countries such as the US, U.K, Japan and Germany.

2. LITERATURE REVIEW

Due to the growing complexity of financial framework across the globe, international bodies such as the IMF and IBRD felt a need to develop a new international body which controlled the accounting framework, policies and financial governance and the IASB (International Accounting Standards Board) emerged. New standards agreed upon maintaining a high quality global standards to meet the necessities of maintaining global accounting standards and regulating framework.

2.1 Accounting Ecology

This section will discuss the concept of accounting ecology encompasses five separate but interacting slices of the environment, i.e., social, organizational, professional, individual, and accounting. It will also focus on the International convergence and governance codes [18].

2.1.1 Social Environment

The very first response to any changes in the environment is usually found in the social environment. With the introduction of new accounting principles and financial governance policies it is seen that people initially feel that the laws have been transgressed and take some time to accept the changes [12].

2.1.1.1 The Economic System

The economic growth of any nation is dependent on the accounting principles and practices followed in that particular nation and vice versa, both accounting standards and economic growth or condition are related. Businesses are oriented on the accounting standards to carry out their daily business operations. Survival in the global market required a common accounting principle. IAS adoption has found to be crucial for economic stability in countries across the globe. In countries where the markets are growing, accounting standards and system are expected to be of high quality and well sophisticated so that they can be compared with the rest of the world [37].

2.1.1.2 The Political System

The accounting principles and standards introduced by IASB is conflicted by the political policies of the different countries as the global standards seek more transparency in reporting the financial data [12]. [15] studied the political controversies surrounded in adoption of IFRSs in the political system of European Union. There were political issues concerning the adoption of the international financial accounting regulation. Political supremacy and control over the global standards established by IASB in 2006 were still in discussion and an analysis was made to study the political system, the relationship of power and institutional forces acting towards the adoption and control of IFRS. The political system includes stakeholders (preparers, legislators, regulators, auditors, and users), all the stakeholders are

2.1.2 Organizational Environment

The existence of a worldwide diversity in accounting standards and practices that have drawn the attention of

researchers to the need to explain the reasons behind such diversity for several decades, as an understanding of those reasons is important especially for the purposes of comparative analysis.

2.2 Accounting Standards

Accounting diversity refers to the differences that exist between the characteristics of the financial reporting frameworks used in different countries. The diversity in the accounting standards is due to the background factors

2.2.1 Indian Accounting Standards Board (IASB)

This section is intended to cover the Indian Accounting Standards Board (IASB) that attempts to develop a set of high-quality standards for financial reporting purposes worldwide by adopting a principles-based approach by recognizing the need for financial statements published by companies in different countries to provide comparable information. The Central Government recommends accounting standards in consultation with the National Advisory Committee on Accounting Standards (NACAS) established under the Companies Act, 1956. NACAS has been engaged in the exercise of examining Accounting Standards prepared by ICAI. It has adopted the international norms established by the International Financial Reporting Standards issued by the International Accounting Standards Board [26]. There have been difficulties in adopting IFRS in India due to several reasons. At present the financial reporting standards that are being followed in India is a combination that is given by the Ministry of Corporate Affairs, guided and issued by the Securities Exchange Board of India (SEBI), guidance from the Institute of Chartered Accountants of India (ICAI), and industry-specific guidance from regulators. Recently there have been discussions about adopting the IFRS by converging IFRS with GAAP principles. The debate that has arisen is whether India must adopt global financial reporting or make changes to the existing standards by converging it with the global financial reporting standards [9]. India also feels a need to adopt the IFRS but is also considered of the impacts that are going to take place with the adoption. One of the most important standards that are going to affect the current banking scenario in India is the IFRS-9 linked to the management of financial assets [16]. SEBI (Security Exchange Board of India) is the controlling authority of handling Indian stock exchange and also provide guidelines to other such financial institutions in India. Also, it is under the constant update of the guidelines to keep in accord with the changing financial conditions around the world. The rules and amendments made by SEBI ought to be followed and implemented in the Indian Banking industry. Therefore the role of SEBI in adopting the IFRS is vital as the majority of non-banking financial companies follow the principles and guidelines set by SEBI along with RBI [16].

2.2.2 The International Accounting Standards Board (IASB)

With the view of making the financial statements more reliable and transparent, the London based group namely the International Accounting Standards Committee (IASC), responsible for developing the International Accounting Standards, was established in June 1973. Between 1973-2001, the International Accounting Standards Committee

(IASC) released International Accounting Standards. Between 1997 and 1999, the IASC restructured their organization, which resulted in the formation of the International Accounting Standards Board (IASB). The revised version of the accounting standards board came into effect from 1st, April 2001. IASB publishes its standards in a series of pronouncements called International Financial Reporting Standards [31].

2.3 The Recognition of Audit Committees in National Corporate Governance Codes

In recent times global financial standards have gained great significance. As the world is at the stage of global comparability of financial stability and growth of the countries, the adoption of accounting standards also determines the corporate governance and helps to maintain good corporate governance codes in the organizations [14].

2.4 Financial Sector Supervisory Models -Concepts and Evolution

Due to the unstable political environment which was prevalent post world war several countries and government bodies came together and set up different international boards that concentrated on the development of the member countries with various agendas. The financial sector has seen major changes since the world war [20].

2.5 The International Monetary Fund (IMF)

One of the reasons for the development of these international financial reporting practices due to the recommendations given by the International Monetary Fund (IMF) to liberalize the economies of a few nations who had previously had a closed economy. Due to increased cross-border trade, and globalization movement the IMF had to make changes in policies in the financial framework which had to be adopted by the organizations associated with IMF to manage the cash flows into and out of the organizations. The policy change introduced by IMF are of incremental and transformative kind [11].

2.6 IFRSs in the Indian Context

Due to several reasons, the accountants and boards connected with the management of accounting regulations and principles feel a need to adopt the IFRS in India. The demand to adopt these policies have seen a rise and is growing due to the rapid growth of trade cross-borders. A few of the reasons could be due to the domestic companies getting announced in the foreign stock exchanges will require those companies to maintain international accounting standards [31]. Different accounting standards have been decided by the government so that it can be conveniently used according to the operation of the organizations. On the other hand, the Accounting Standard Board, along with the Ministry of Corporate Affairs (MICA), decided to improvise the Indian accounting standards to match the high quality of global accounting standards. The benefits of using the IFRSs have been recognized, and those are they provide better management of financial accounting and preparation of financial statements. The disclosure of the information is such that it is transparent, and the investors, stakeholders, analysts, and regulators have a better understanding of the whole functions of the organizations [31]. The impact of the adoption of IFRS in

India are many; some of the critical sectors that are likely to get affected are oil and gas, finance, telecom and infrastructure industries. Although there can be rewards with the acceptance of IFRS, there are several challenges in doing so. The difficulties in the adoption are

1. The number of professionals with sufficient knowledge and expertise is less compared to the members required for successfully implementing the task [31].
2. Lack of clarity on how to proceed with converging the accounting standards and methods taken to implement it [22].
3. India does not have adequate training facilities to train the professionals concerning the new regulatory framework and concepts associated with it [22].
4. Taxation laws will be affected and changes have to be made in that domain after adopting the IFRS.
5. Fair value and measurement laws also undergo a noticeable change which may cause losses or gains in the financial statements prepared by the companies thereby making the whole process volatile and susceptible to environmental changes [22].

The convergence of IFRS with Indian accounting principles is not governed by one single authoritative body/board. It requires the participation of several boards to make the implementation of IFRS successful in a diverse country like India [26]. The important boards and ministry that have to make changes to impact the successful implementation of IFRS in India are as follows:

1. Company's Act 1956
2. SEBI guidelines
3. IRDA rules and regulations
4. RBI Banking Regulation Act.
5. Standards to be notified by NACAS

India at first thought of convergence with IFRS using a phased approach at the beginning of 2011 but the Indian accounting standards board postponed the shift to the new standards. Later in January 2015, the Ministry of Corporate Affairs (MCA) released a revised roadmap that reflected the essence and mentioned that companies owning a net worth of Rs. 500 crore or more would have to compulsorily follow Indian Accounting Standards (IND AS), which are primarily converged with the International Financial Reporting Standards (IFRSs), by 1 April 2016 [1].

2.7 The Impact of Financial Standards on Sustainable Development

Sustainable development generally means meeting the requirements of the present generation by not compromising the requirements or needs of the future generation. The financial framework also impacts sustainable development in many ways. [35] studied the impact of the financial sector on sustainable development. As applied to the societal environment, it was observed that there are three main impacts. Changes in the International Financial accounting standards affect the businesses globally, and the operation affects the economic conditions in the countries where they carry out their business. The first implication that it will have a direct impact on the clients

or projects and the investees. Sustainable development and financial sector both depend on environmental regulations. At times of climate change or the aim of the governments to eradicate poverty and to provide a better standard of living will require the financial sector's assistance through which there is an indirect impact of financial standards on sustainable development. The accounting and financial standards were found to have a positive impact on the CSR activities of businesses [35]. With the global financial reporting initiative, it is said to promote a green building policy and social supply chain management. The International Financial Standards impact sustainability development by providing transparency, accountability, efficiency to enable investors to participate in the global market. The regulatory framework also maintains sustainable growth by reducing the information gap between capital seekers and lenders. The IASB environmentally is moving towards sustainable existence as it has certain policies designed for waste disposal, pollution control, decommissioning and restoration expenses [34]. The main challenge is that globally applied assurance standards for sustainability disclosures vary vastly in their methods and outlook and are not widely used in all regions. The factors vary and depend on how sustainability information is reported and whom they target [34].

2.8 Benefits to India by Adopting IFRS

Economically, there will be accelerated growth in the businesses both domestically and globally. It will help the accounting professionals to connect with the international accounting standards and maintains a balance in the evaluation of the global companies. IFRS helps to build a stronger capital market and thereby decreases the cost of capital. Convergence with the IFRS would build the reputation and long-lasting relationship of the Indian corporate with the International financial entities. Moreover, the corporate entities back in India would be benefited because of several reasons. The higher level of consistency will be maintained between external and internal reporting. Because of better access to the global financial market, there will be an improvement in risk rating. Thus it will further make the Indian corporate world more and more competitive globally as their comparability with the global counterparts will increase [1].

3. METHODOLOGY

The current study uses a deductive research approach. Studies using this kind of approach follow a pattern. Firstly, a theory is considered, next a particular case is taken, and the theory is applied to the specific situation that is undertaken to be studied. The deductive approach is also known as a top-down approach, where the research moves from a broader area to a specific one [8]. A Descriptive Research design is used. The chosen design helps in substantiating the views of different authors around the world to determine the reasons behind increasing demand of adopting IFRS. Data collection is done through secondary data collection technique. For the present study data is collected from many journals, articles, news articles, magazines, and reports of many boards. The samples for current study are financial data as recorded in the financial institution boards such as IMF (International Monetary Fund), IASB (International Accounting Standards Board),

IASC (International Accounting Standards Committee), ICAI (The Institute of Chartered Accountants of India), and the respective boards of the G8 countries like USA, UK, Japan and Germany. Accounting Ecology of these countries and the adoption level is discussed in selected from the reports. Data analysis is done in a descriptive manner. The observations found in the review of literature section is analysed and discussed as findings and results. The main analysis is to find the demand of for global financial reporting convergence and financial regulatory framework with reference to India and selected G8 countries.

Research Objectives

1. To know the need for global financial reporting convergence in selected countries.
2. To explore the gaps in the financial reporting practices and regulatory framework which lead to corporate financial Transgression.

4. DATA ANALYSIS AND INTERPRETATION

From the data analysis table (appendix), we observed that not all the companies in Indian and selected G8 countries have adopted International financial reporting standards; only Germany has adopted the IFRS, where all the companies have effectively implemented it. Further, companies in the USA has still not adopted IFRS and following US GAAP, along with which only 30 per cent of companies in India have accepted IFRS. However, most of the companies in the United Kingdom are preparing their accounting reports as per the international accounting reporting standards. Furthermore, Japanese companies have the option to select either IFRS, US GAAP or Japanese GAAP and only half of the companies in Japan are preparing their accounting reports by IFRS. Since the global market is increasing at a fast pace, diverse reporting standards would make it difficult to rely on companies' financial reports and make financial comparisons; thus, there is a need to follow uniform standards. Further, not all companies in India, Japan, USA, and UK have accepted IFRS; this could lead to financial transgression due to the gap created in the existing financial reporting practices at a global level. The main gap is that globally applied assurance standards for various disclosures vary vastly in their methods and outlook, and they are not widely used in all regions. Furthermore, there are many companies in the USA, which are operating globally, and different accounting standards might affect their businesses globally. Also, the diverse accounting standards affect the economic conditions in the countries where they carry out their business. Since many Indian companies have not implemented IFRS, it has created a barrier in enabling companies to simplify reporting processes and decrease compliance costs. Furthermore, various German companies adopted international financial accounting standards in the 1990s, voluntarily, to access international capital funding. Though IFRS was not compulsory in Germany in 1990s yet approximately, 60 per cent of the companies were using it. Also, presently, it is mandatory for all the German companies to adopt IFRS and the critical driver to do so is the international exposure and dispersion of ownership. Moreover, the IFRS implementation in UK companies is comparatively high as compared to India as apart from a few companies, rest have adopted International financial

reporting standards. As companies in the UK mainly rely on equity finance, thus making financial reporting crucial for meeting the needs of the investors. Equity finance and interest of investors being class dominate is one of the reasons behind UK companies adopting IFRS.

5. DISCUSSION AND CONCLUSION

The present study attempted to contribute to the existing literature by exploring the extent of convergence in the accounting standards being followed by global economies. More specifically, the present study is aimed at recognizing the extent to which the companies operating in different countries, i.e. the G8 countries and India are accepting and adopting IFRS as their financial reporting standard. The study was based on secondary data gathered through journals, articles, news articles, magazines, and reports of many boards. The data was mainly sourced from the financial boards such as IMF (International Monetary Fund), IASB (International Accounting Standards Board), IASC (International Accounting Standards Committee), and ICAI (The Institute of Chartered Accountants of India). The major economies based on which such evaluation has been made were USA, UK, Japan, Germany, and India. The extent of adoption of IFRS in the USA, UK, Japan, and Germany was compared to India to be in the position of commenting on the extent of reporting convergence and financial transgression.

5.1 US and India

The results of the analyzed data for the US economy established that 96.5% of the sampled firms in the US economy were not following IFRS. The only firm which was observed to be using IFRS for financial reporting had been Coca-Cola in the US economy. The rest of the firms were assumedly using the US GAAP for their financial reporting. Comparing such results with the Indian economy, it can be observed that the compliance in the Indian economy is also low, but, certainly more than the US economy. In the Indian economy, 28.57% of the sampled firms were seen to be using IFRS for financial reporting as against 3.45% in the US economy. Thus, the adoption of IFRS in both economies is low with the Indian companies majorly using Indian GAAP or the Indian Accounting Standards (Ind AS), and the US-based companies substantially relying on GAAP. Such results may be attributed to non-mandatory adoption of IFRS in both of these economies. Also, the Indian Accounting Standards are based on IFRS and quite converged with them, which could be a reason for lesser adoption of IFRS in the Indian economy.

5.2 UK and India

In contrast to the results obtained for the US economy, in the context of the UK, it was observed that majority of the companies operating the economy of the UK had been using IFRS for financial reporting. In this respect, it was seen that around 92.6% of the sampled firms in the UK had been reporting as per IFRS. The rest 7.4% of the firms were presumably using the UK GAAP. As previously established, the adherence to IFRS for reporting in the Indian companies is very low. Thus, it wouldn't be inappropriate to maintain that the financial reporting in these two economies is considerably different, and there is no financial reporting convergence in these economies. The higher rate of

adoption of IFRS in the economy of the UK could be explained by voluntary adoption of it by the UK-based organizations owing to the reasons such as international orientation, financial leverage, ease of expansion of firm size and reputation amongst the auditors. Moreover, the adoption of IFRS in the UK economy is believed to be linked with higher profitability. [4] have confirmed to the same in their study based on voluntary adoption of IFRS in UK-based firms. Additionally, the firms in the UK are dependent on Equity financing to a great extent, and hence, their financial reports need to be exemplary at all times to be able to lure sufficient investors.

5.3 Japan and India

For Japan, the results failed to display any one direction in terms of financial reporting standards as approximately a moiety (46.43%) of the sampled firms had been following IFRS while the remaining (53.57%) had been using US GAAP or Japanese GAAP. However, the figures show that even though with a lesser margin, but still, the majority of the firms are still following IFRS in Japan. However, as presented in the earlier sections, the Indian companies are preparing their accounting statements as per IFRS to a relatively lower extent. Hence, no financial reporting convergence could be observed for Japan and India as well. Similar to the Indian and the US economy, there is no compulsion of adopting IFRS, and these standards were only introduced in 2010 in the Japanese economy, which explains their lesser compliance.

5.4 Germany and India

All of the sampled companies operating in Germany were observed to be using IFRS for the preparation of financial reports. There is a high rate of adoption of IFRS in the German economy since the 1990s. The companies in Germany have been voluntarily using IFRS for reporting to gain access to international capital funding. At present, all the German companies must adopt IFRS, which explains 100% adoption of IFRS in the German economy. As previously established, the adherence to IFRS for reporting in the Indian companies is very low. Thus, no financial reporting convergence could be observed for Germany and India. In the recent wake of globalization, it is increasingly becoming crucial for the financial markets to be financially bilingual. As the foreign markets are now becoming increasingly dependent on each other, it has become imperative for the economies to have consistency in terms of financial reporting standards for the ease of comprehension and comparability. In light of such considerations, the present study attempted to study the financial reporting convergence in the G8 countries as compared to India. The results established that the economies of the UK and Germany are financially bilingual to a great extent as the companies operating in these nations are substantially using IFRS for preparation of Financial Statements. However, the degree of adoption of IFRS in the economies of Japan, India and the US (in decreasing order of IFRS compliance) is quite less. While comparing the results of the Indian economy with the rest of the countries, it was observed that owing to the differences in financial reporting standards, no financial convergence could be established between the Indian economy and the other economies. The Indian economy was only similar to

the US economy in terms of not adequately complying with IFRS, but, yet no financial convergence exists as both the economies use their own financial accounting standards for financial reporting. Such results direct towards the possibility of financial transgression as there seems to be an absence of consistent and implicit reporting rules in the global scenario. Additionally, in a globalized scenario, many companies are operating multi-nationally, and the use of different reporting standards across the host countries will potentially complicate things further for such companies. Conclusively, the financial boards need to pay heed to either the development of uniform global reporting standards or ensuring the adoption of IFRS globally for enabling plain sailing global operations, avoidance of financial transgression, and enhancing the quality of overall global financial reporting.

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APPENDIX (IFRS IMPLEMENTATION)

Y= IFRS is implemented

N= IFRS is not implemented

India	
2016-2017	
BSE SENSEX 30	IFRS Implementation
Asian Paints	Y
Axis Bank	N
Bajaj Auto	N
Bajaj finance	Y
Bharti airtel	N
Coal India	N
HCL Tech	N
HDFC bank	N
Hero Motocorp	N
HUL	N
ICICI Bank	Y
IndusInd Bank	Y
Infosys	Y
ITC	N
Kotak Mahindra	N
Larsen	N
M&M	N
Maruti Suzuki	N
NTPC	N
ONGC	N
Power Grid Corp	N
Reliance	N
SBI	N
Sun Pharma	N
Tata Motors	N
Tata Steel	-
TCS	Y
Vedanta	Y
Yes Bank	Y

Japan	
2016-2017	
TOPIX core 30	IFRS Implementation
Astellas Pharma Inc.	Y
Canon	N
Central Japan Railway Co.	N
East Japan Railway Co.	N
Fanuc Corp.	N
Hitachi	Y
Honda Motor	Y
Japan Tobacco	Y
Kao Corp.	Y
KDDI Corp.	Y
Keyence	N
Mitsubishi Corp.	Y
Mitsubishi Estate	N
Mitsubishi UFJ Financial	N
Mitsui	Y
Mizuho Financial	N
Murata Mfg Co	N
Nintendo	-
Nippon Telegraph & Telephone Corp	Y
NTT Docomo, Inc.	Y
Panasonic	Y
Recruit Holdings	Y
Seven & i Holdings	N
Shin-Etsu Chemical	N
Softbank Group Corp.	Y
Sony	N
Sumitomo Mitsui Financial	N
Takeda Pharmaceutical	Y
Tokio Marine Holdings, Inc.	N
Toyota Motor	N

Germany	
2016-2017	
DAX 30	IFRS Implementation
Adidas	Y
Allianz	Y
BASF	Y
Beiersdorf	Y
Bayer	Y
BMW	Y
Continental	Y
Covestro	Y
Daimler	Y
Deutsche Bank	Y
Deutsche Lufthansa	Y
Deutsche Post	Y
Deutsche Telekom	Y
E.ON	Y
Fresenius	Y
Fresenius Medical Care	Y
HeidelbergCement	Y
Henkel	Y
Infineon Technologies	Y
Linde	Y
Merck	Y
Munich Re	Y
RWE	Y
SAP	Y
Siemens	Y
ThyssenKrupp	Y
Volkswagen Group	Y
Vonovia	Y
Wirecard	Y

USA	
2016-2017	
Dow Jones Industrial Average (DJIA)	IFRS Implementation
3M	N
American Express	N
Apple	N
Boeing	N
Caterpillar	N
Chevron	N
Cisco Systems	N
Coca-Cola	Y
Dow Inc.	N
ExxonMobil	N
Goldman Sachs	N
The Home Depot	N
IBM	N
Intel	N
Johnson & Johnson	N
JPMorgan Chase	N
McDonald's	N
Merck & Company	N
Microsoft	N
Nike	N
Pfizer	N
Procter & Gamble	N
Travelers	N
UnitedHealth Group	N
United Technologies	N
Verizon	N
Visa	N
Walmart	N
Walgreens Boots Alliance	N
Walt Disney	N

UK	
2016-2017	
FTSE 100	IFRS Implementation
Royal Dutch Shell	N
HSBC Holdings	Y
BP	Y
AstraZeneca	N
GlaxoSmithKline	Y
Diageo	Y
British American Tobacco	Y
Unilever	Y
Rio Tinto	Y
Reckitt Benckiser Group	Y
Vodafone Group	Y
Glencore	Y
Prudential	N
Lloyds Banking Group	-
BHP Group	Y
RELX Group	-
National Grid	Y
Barclays	Y
Compass Group	Y
Royal Bank of Scotland Group	Y
BT Group	Y
Anglo American	Y
Imperial Brands	Y
Standard Chartered	Y
Tesco	Y
Associated British Foods	Y
Experian	Y
CRH	Y
Rolls-Royce Group	Y
Aviva	Y

Corporate Financial Transgression and Effects of Changes in Regulatory System in India

Manav Aggarwal, Babli Dhiman

Abstract: *Financial Transgression is a problem which has surrounded the Corporate World. Violation of regulatory provisions and gaps in financial reporting practices have led to occurrence of frauds. Developing as well as Developed Nations, both are victims of this problem. This paper is an attempt to find the various reasons of financial transgression in India and evaluation of subsequent changes made thereafter by regulatory bodies in the statutes so that no such cases occur in future. Secondary sources of information were used to cover the cases of financial transgression in India for the period 1991 i.e. beginning of LPG regime till 2018 for the purpose of the paper which leads to changes in regulatory framework and reporting practices. The timeline of the cases in India is strategically hinting towards the weak regulatory system of India along with late changes made in the relevant regulatory framework. Whenever a new case of financial transgression has been reported, it reflected the loopholes in the system. So it is high time for India to learn a hard lesson for the growth of the economy.*

Keywords: *Financial Transgression, International Financial Reporting Standards (IFRS), Reforms, Regulatory System*

I. INTRODUCTION

Financial Transgression is the act which is against the rule of law which results into catastrophe for Corporate Sector, Regulatory Authority and economy of the concerned state. That act may be misappropriation of funds, misappropriation of accounts, false accounts statements, false corporate reporting to befool and deceit the investors, stakeholders, regulatory authority and government of the respective state. It is like a sin act done by culprits for their motive & results into the loss of money of the stakeholders and other investors of the organization, degradation of corporate impression of the state in the outlook of world. For the last so many years, economies of the world are facing many ups and downs and it is due to so many cases of financial transgression happening in corporate world and the collapse of stock markets. Financial transgression is a concern which has surrounded the corporate world. Violations of regulatory provisions and gaps in financial reporting practices have led to occurrence of such cases. Developing and developed nations, both are victims of this problem which resulted into major financial crisis for the government exchequer. Whenever corporate scandals occur, creative accounting is used to manipulate books of accounts to commit fraud. Even after following a number of accounting standards to prepare books of accounts, shrewd accountants have been able to find out the pigeon holes of manipulations which ultimately resulted into big financial scams, thereby destroying the public faith in the companies.

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There are number of ways an accounting fraud can be committed. It can be done by recording a fake income or recording that income from backdate, recording fake income the company never received, or backdate revenue, shifting current and future expenses to make the books look more lucrative. Thus, the way to practice the accounting and the interpretations that may give different solutions in similar situations are some black holes that may leave a huge scope for the corrupt accountants to do such acts. Efforts to improve corporate governance should focus on stock ownership of board members since it is positively related to both future operating Performance, and to the probability of disciplinary management turnover in poorly performing firms [1]. Legislators and policymakers should continue to develop and update the recommendations of national governance codes in order to address the potential failures of corporate governance mechanisms in place [3]. Enron Corporation scandal resulted into emergence of a new act namely Sarbanes Oxley Act, 2002 containing stringent provisions for auditors which impacted the whole accounting profession [14]. The Lehmann Brothers crisis in United States revealed number of factors that gave rise to it, prominent among them were unethical accounting and management practices, investing in risky and unsecured investments to earn more profits, with closed eyes of regulators. The watchdogs that are external auditors were also a big failure in performing their duties by not detecting and reporting such malpractice, ultimately resulted into stringent measures adopted by Security and Exchange Commission (SEC) to address Lehman failure to avert any future occurrence [15].

A. Regulatory Framework of India

The stock market transactions in India are regulated by Securities and Exchange Board of India (SEBI) whereas The Companies Act, 1956 and now Companies Act, 2013 contains the provisions applicable for companies. Guidelines relating to corporate governance practices are given by SEBI and Companies Act. Also, there are accounting standards followed by companies for preparing their financial statements which play major role in presenting a true and fair view of financial statements. Due to non-uniformity of accounting standards across the world, an effort is made to bring harmony in these standards by international bodies by introducing International Financial Reporting Standards (IFRS) which act as single set of high quality standards to make economic decisions. Genuine departure from these IFRS is allowed to avoid any confrontation with applicable laws, economic environment and traditions. Therefore, these IFRS are implemented in India with modifications in its actual form and named as Ind-AS (Indian Accounting Standards).

Corporate Financial Transgression and Effects of Changes in Regulatory System in India

Hence, these Ind-AS (Indian Accounting Standards) are the converged form of IFRS according to traditions, legal and economic environment of India and are issued by the Ministry of Corporate Affairs. Convergence with IFRS may not only help the investors in comparison for making investments but also will lower the risk of errors of judgments. Adoption is, however, done in the phased manner and that too for listed companies and other big unlisted companies as follows:

Table I: Criteria of Ind-AS applicability in India

Applicability Dates of Ind-AS in India	1-4-2015 to 31-3-2016	1-4-2016 to 31-3-2017	1-4-2017 onwards
Adoption Criteria	Voluntary Adoption	Mandatory Application for all Listed or Unlisted companies having Net worth \geq 500 crores	Mandatory Application for all Listed Companies & those unlisted Companies having Net Worth \geq 250 crores

These Ind-AS are still not applicable on banking and insurance companies for whom IFRS are being separately modified. These were to be implemented with effect from 1-4-2018 but implementation has been deferred to 1-4-2019 citing the reason of non-availability of infrastructural support.

II. REVIEW OF LITERATURE

Regulatory system or framework of the country determines the compliance requirements for those on whom such regulations are applicable. Provisions of Companies Act & SEBI both are the pillars of India's regulatory framework. Even after having such a regulatory system, there are violations of the provisions of both on continuous basis. Various cases of financial transgression in the Indian financial markets since 1991 have led to regulatory reforms, forming new institutions and strengthening the institutional framework [5]. The need for common global standards was felt due to globalization of capital markets [4, 6], to have a true and fair presentation of financial statement that could be easily accessible to all the potential users including potential investors across the world, for making easy comparability of international financial statements with Indian companies, and also to eliminate multiple reporting [12]. But the transition from Indian GAAP (Generally Accepted Accounting Principles) to IFRS was not easy. Stakeholders would face many difficulties because of this convergence. To overcome this problem, the remedy suggested was that they should be trained and IFRS should be introduced as a full time subject in the universities [16, 19]. The various cases of financial transgression happened in India highlighted that our banking, insurance and police agencies are not equipped with modern techniques to stop these scams so there is a need of implementing new techniques to stop these scams [7, 18]. Satyam case revealed fraudulent corporate reporting by manipulating loose accounting practices. It threatens future foreign investment flows and casts a cloud over growth in its booming sectors like outsourcing sector in case of India. So there is a need for

strong Corporate Governance [2]. The nature and perception of cases of financial transgressions in India and their consequences in the business and economic systems reveal that role of auditors should be redefined as fraud prevention policy and reporting of frauds both are missing. Financial institutions and banks are even not effective in using diligence, so there must be true adoption of IFRS and also responsibility must be fixed for any unprofessional behavior of the board members [9, 10]. A sound regulatory framework is fundamental to trust, particularly when cross border businesses are running [2, 11]. The financial development of any nation depends on strong investor protection and good governance [13]. There is a need for proper enforcement of ethical standards and governance codes in the corporate world besides changes in accounting regulation [17]. Otherwise individuals in the corporate world cannot be stopped from employing misleading reporting practices [8].

On the basis of above literature review, a research gap is clearly found with respect to cases of financial transgression that why they occurred time and again and whether changes made in regulatory framework were enough or not which has earlier not been part of the previous studies.

III. METHODOLOGY

Financial transgression occurs when there are gaps in the regulatory framework of the country. Even if the gaps do not appear on the surface, yet the financial transgression do occur. Not only the developing nations but the developed nations are also the victims of this problem which resulted into major financial losses to the government exchequer vis a vis loss of reputation of the companies as well as regulatory framework of the country. Financial transgression begins from the financial books. Books are prepared by accountants according to accounting standards. These standards are violated on perennial basis to manipulate the books of accounts by those who are expert in preparation of these financial statements. This paper mainly focuses on the gaps in regulatory framework and existing accounting standards which resulted into occurrence of cases of financial transgression and sufficiency of measures taken afterwards. So following three objectives are designed on the basis of above discussion:

1. To explore the gaps in the regulatory framework which lead to financial transgression in India.
2. To identify the reasons of financial transgression.
3. To find out whether regulatory reforms made after occurrence of cases of financial transgression were sufficient enough to reduce such cases or not.

IV. RESULTS AND DISCUSSION

As the era of Liberalization, Privatization and Globalization (LPG) began in 1991 in India and the major financial scams occurred in late 90's in India. So, the period starting from 1991 till current year has been taken into account for the purpose of the cases of financial transgression of this research paper which leads to changes in regulatory framework and financial reporting practices.

Descriptive research design is used for this paper and secondary sources are used to collect data. The following table shows the summary of cases of financial transgression in India along with the amount involved in these cases:

Table II: Financial Transgression Cases Happened in India

NAME OF SCAM	YEAR	AMOUNT IN ₹ CRORES
Harshad Mehta Scam	1991	3500
C.R. Bhansali Scam	1995	1200
Ketan Parekh Scam	1999	1500
UTI Scam	2001	4800
2G Scam	2008	176000
Satyam Scam	2009	8000
Sahara Scam	2010	24000
Adidas Scam	2012	870
Coal Scam	2012	186000
Sharda Chitfund Scam	2013	2460
NSEL Scam	2013	5000
Kingfisher Airlines Scam	2015	9400
PNB-Nirav Modi Scam	2018	11400

A. Gaps in Regulatory Framework

Harshad Mehta case was a case of violation of RBI directives & SEBI guidelines. Harshad Mehta exploited the loopholes in financial system through Ready Forward Deal (RF) and the Bank Receipts (BR). Price rigging mechanism was used by him in the stock market. In C.R.Bhansali Scam, People invested money based on attractive schemes run by CR Bhansali. But he transferred this money to his companies to invest in stock market. The fall of stock market in 1995 made bhansali trapped and he lost ₹1200 crores, he could not repay the investors. He also encashed interest warrants from banks particularly SBI, which were in fact fake. Ketan Parekh scam was a case of violation of RBI and SEBI guidelines. Circular trading mechanism was used to rig up the stock market and for this purpose, funds of banks and promoters were used. Ketan Parekh borrowed huge funds from Global Trust Bank and Madhavpura Merchantile Co-operative Bank to buy shares in fictitious names. He dumped the rigged up stocks in financial institutions like UTI and LIC. The impact of this scam was seen in postponing of sanctioning of private sector mutual funds. Also the Euro issues planned by many Indian companies were delayed. Ketan Parekh was also banned from trading in the stock market till 2017. In case of UTI scam, Ketan Parekh invested much of the UTI money in k10 stocks such as Himachal Futuristic, Zee Telefilms, Global Tele, and DSQ. In 1992, investments were shifted from debt to equity by UTI and repurchased occurred not at NAV of ₹ 8 but at higher price ₹ 14. In case of 2G scam, Irregularities were found in awarding spectrum licenses by the then government. Licenses were issued on first come first serve basis instead of public auction. Advancing of cutoff date for applying for licenses was also done which was illegal. In the Satyam scam which is considered to be mother of all scams in India, overstatement of assets \$1.47bn, non-existent cash shown in bank \$1.04 bn, underreporting of liabilities, ADRs purchased were not shown in balance sheet. Falsified

revenues, margins and cash balance, operating profit artificially boosted from 61 crores to 649 crores, Violation of disclosure practices in accounting standards, all were included in this scam. Sahara scam was a case of violation of capital raising norms and certain sections of Companies Act. SEBI guidelines were not followed while issuing OFCD (Optionally Fully Convertible Debentures). Parabanking activity was run by this company without regulatory disclosure and investor protection. In Adidas scam, Former MD & COO was charged with over invoicing ₹147 crores and running false franchisee referred Programme, 114 crores fake invoices, 98 crores Fudging company accounts, operating secret warehouses and violation of disclosure practices in accounting standards were also found in this case. In case of coal scam, Coal blocks were allotted and not auctioned, leading to estimated losses as per the Comptroller and Auditor General of India. Government policy paralysis came into picture out of this case. In case of Shardha chitfund scam, the companies run by this chitfund issued secured debentures and redeemable preferential debt and thereby violated section 67 of Companies Act where a company cannot raise capital from more than 50 people without issuing a proper prospectus. Already Shardha group was challenged by SEBI in 2009 when it opened more than 200 companies and did cross holdings. NSEL scam operated around agriculture products which were traded through commodity exchange. NSEL promoter Jignesh Shah by using fake warehouse receipts took its commission amount from Rs 2000 crore (in 2009) to Rs 3 lakh Crores (in 2013). Forward market commission (FMC) raised doubts in 2013 because of many factors like black marketing , profiteering etc. and asked for T+10 contracts only but it could bring only rupees 100 crore whereas contracts were amounting to rupees 5000 crores. Ultimately, it collapsed and Jignesh shah was arrested. Also NSEL CEO Anjani Sinha was arrested. Government banned E-series system. In case of Kingfisher Airlines scam, Mr Vijay Mallya was the chairman of this company and this airlines was in Persistent losses since 2006. Vijay Amritraj resigned as director, Anil Kumar Ganguly resigned as independent director. This company took loans from the consortium of banks but did not pay in time and tried to negotiate with the banks for paying quiet a less amount. Bankers did not accept his proposal and declared him as “willful defaulter”. Later he fled to United Kingdom to avoid the arrest. He is still absconded. In case of Punjab National Bank- Nirav Modi scam, PNB employees issued fake LoUs (Letter of Undertakings), on the back of which foreign branches of a few Indian banks — including Axis and Allahabad Bank — gave dollar loans to PNB. These foreign currency loans were used to fund PNB’s Nostro accounts and from these accounts funds moved to certain overseas parties. A Nostro account is the account an Indian bank (here, PNB) has with an overseas bank. LoUs act as guarantee and buyers’ credit is normally given against 100% margin. On checking the records, it was found that the firms did not have any collateral for such credit. On further investigation into the account, it was revealed that the transactions between PNB and other banks were going on for years without being detected.

Corporate Financial Transgression and Effects of Changes in Regulatory System in India

This was because its software was not integrated with the SWIFT (Society for Worldwide Interbank Financial Telecommunication) messaging system that is used for international transactions.

B. Reasons of Financial Transgression in Context of Indian Cases

There were clear reasons found which lead to cases of financial transgression. In the following table, a ranking has been done for the various reasons that occurred time and again in the various cases.

Table III: Reasons of Financial Transgression with Ranks

Reasons of Financial Transgression	No of cases	Rank
Violation of Banking directives/weak banking system	5	2
Violation of SEBI guidelines	6	1
Govt. policy failure	2	4
Violation of disclosure norms	2	4
Use of creative accounting	3	3
Violation of Companies Act	1	5
Misappropriation of Assets/funds	1	5

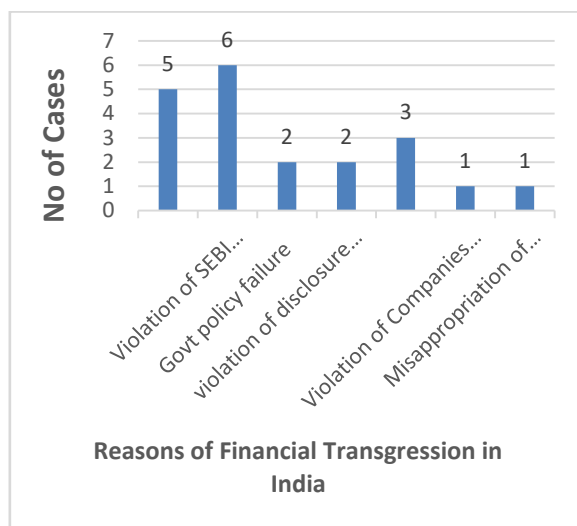


Fig 1: No. of cases of Financial Transgression in India

C. Reforms in Regulatory Framework

Before the occurrence of Harshad Mehta case, no statutory powers were vested with SEBI earlier, but in 1992, statutory powers were given and in 1995, additional statutory powers were given to SEBI so that it could regulate the stock market properly. Those brokers were suspended who were acting as Directors and other office bearers of BSE for alleged insider trading. CR Bhansali scam was almost done in continuation with Harshad Mehta scam, so whatever powers were assigned to SEBI, that was collective outcome of securities market scams. After Ketan Parekh scam, trading cycle was cut short from a week to a day by SEBI. Carry forward system in stock trading called "BADLA" was banned. SEBI also withdrew broker control over stock exchanges. After the occurrence of UTI scam, immediate steps were taken by government to bring back the faith of the public in UTI and other such government bodies. PSU (Public Sector

Undertakings) shares were transferred to a special unit scheme (SUS'99) subscribed by the government in 1998-99. UTI announced that a realistic dividend policy for US-64 scheme based on the performance of the fund in the market will be made. Finally, US-64 was made fully SEBI regulated scheme. After 2G scam, there was much uproar all across India because it was a huge loss to the exchequer of Indian government, so e-auctions were started by government in awarding spectrum distribution licenses. Satyam scam resulted into major reforms in regulatory system by implementing Ind-AS, Class action litigation, whistleblowing on frauds by auditors, imposition of criminal liability on auditors, mandatory rotation of audit firms every 10 years, more frequent audit committee meetings. In December 2009, Ministry of Corporate Affairs (MCA) also issued Corporate Governance guidelines based on this fraud. SEBI (issue of Capital Disclosure requirements) Regulation, 2009 already came into existence and later Companies Act 2013 came into existence with stringent norms with the help of which loopholes of Sahara scam were tried to be plugged. Ind AS applicability was made mandatory since 2016 which are more transparent than earlier accounting standards. Coal block e-auctions started after the occurrence of the coal scam. Serious Fraud Investigation Office (SFIO) provisions brought in Companies Act 2013 after the occurrence of Shardha chitfund scam and this case is being investigated by SFIO. SEBI (Prohibition for insider trading) regulation, 2015 & SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 was introduced to bring more transparency after the occurrence of NSEL scam. After the NSEL scam, Arvind Mayaram panel was constituted by government and FMC (Forward market commission) which was under consumer affairs ministry earlier, was shifted to finance ministry. The effect of kingfisher airlines scam was that role and number of independent directors increased in Companies Act 2013 because this case actually began in 2006 since the start of losses in kingfisher airlines. The Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI Act 2002) is now replaced with amendment bill 2016 with more stringent provisions. Amendments were made in The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests Act, 2002 or SARFAESI Act by bringing in 2016 "Enforcement of Security Interest and Recovery of Debts Laws and Miscellaneous Provisions (Amendment) Act, 2016 after the occurrence of Punjab National Bank- Nirav Modi scam. Because of these, bank could recover a huge amount from the sale of assets of Nirav Modi. Although government of India is finding it difficult to bring back Mr Nirav Modi from USA because of weak treaties between India and other countries.

V.CONCLUSION

Cases of financial transgression have occurred at a very rapid pace in the past. Perpetrators used to fly away to some safe heavens where we don't have strong treaties to bring them back to punish the guilty. This has happened in case of Vijay Mallya (kingfisher Airlines owner) and Nirav Modi (PNB-Nirav Modi Scam). So need is to take strong measures to have strong treaties with such countries.

If a guilty is punished, that always acts as an example for the others not to commit such things. India should learn a lesson from other countries where cases of financial transgression occurred particularly USA where various scandals occurred in late 90s and early years of 2000-2010, USA came with the very stringent Act namely Sarbanes Oxley Act, 2002. After this act, there was a big fall in cases of financial transgression. Corporate Governance mechanism will have to be made strong for companies and it will have to be linked with remuneration in such a manner that Directors who look after the affairs of the companies will not be encouraged to involve in such cases. There is utmost necessity to train the academicians first so that they can train the young generations in the field of accountancy to face the challenges posed by this convergence process i.e. adoption of IFRS. From the above discussion, it's clear that regulatory bodies have taken several measures to overcome the menace of financial transgression. Many committees were constituted like Narayan Murthy committee in India, which was constituted by SEBI to focus on the quality of financial disclosures and role of audit committee as well as the role of independent directors. SEBI was also empowered on different occasions by bringing new regulations. But it has been observed that major loopholes are there in Indian regulatory framework due to which India is regularly witnessing the cases of financial transgression. In India, however, due to changes in the relevant regulatory framework, no reduction in number of such cases has been reported. Cases of financial transgression have shaken the economy of India very badly and it is compelled and expected to do more on account of occurrence of such cases of financial transgression. Due to very rapid changes in technology, perpetrators are finding new ways to do such financial scams. So there is great need on the part of India to keep pace with such changes in technology and keep on changing the regulations on continuous basis and needs to take strong actions against the perpetrators. Regulatory Bodies and Governments should be more alert and responsive whenever they come across any such case of financial transgression.

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CONVERGENCE OF ACCOUNTING STANDARDS, FINANCIAL TRANSGRESSION AND REGULATORY REFORMS IN INDIA AND USA

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Abstract

The purpose of the study is to find the various reasons of financial transgression in India and USA and evaluation of subsequent changes made thereafter by regulatory bodies in the statutes so that no such cases occur in future. Secondary sources of information are used to cover cases of financial transgression in India and USA for the period 1991 till 2018. Major loopholes have been found in Indian regulatory framework rather than in USA. It is observed that even after USA proactively changed the rules, yet the financial transgression cases could not be fully eliminated by them. The timeline of the cases in India and USA is strategically hinting towards the weak regulatory system of India along with late changes made in the relevant regulatory framework. Remarkable reduction in number of cases of financial transgression has been reported but India has not learnt a lesson from US corporate failures.

Keywords: Financial Transgression, Regulatory System, Reforms, International financial reporting standards (IFRS).

I. Introduction

For the last so many years, economies of the world are facing many ups and downs and it is due to so many cases of financial transgression happening in corporate world and the collapse of stock markets. Financial Transgression is the act which is against the rule of law which results into catastrophe for Corporate Sector, Regulatory Authority and economy of the concerned state. That act may be misappropriation of funds, misappropriation of accounts, false accounts statements, false corporate reporting to befool and deceit the investors, stakeholders, regulatory authority and government of the respective state. Financial transgression is a concern which has surrounded the corporate world. Violations of regulatory provisions and gaps in financial reporting practices have led to occurrence of such cases. Developing and developed nations, both are victims of this problem which resulted into major financial crisis for the government exchequer. Whenever corporate scandals occur, creative accounting is used to manipulate books of accounts to commit fraud. Even after following a number of accounting standards to prepare books of accounts, shrewd accountants have been able to find out the pigeon holes of manipulations which ultimately resulted into big financial scams, thereby destroying the public faith in the companies. There are number of ways an accounting fraud can be committed. It can be done by recording a fake income or recording that income from backdate, recording fake income the company never received, or backdate revenue, shifting current and future expenses to make the books look more lucrative. Thus, the way to practice the accounting and the interpretations that may give different solutions in similar situations are some black holes that may leave a huge scope for the corrupt accountants to do such acts.

There is no doubt that a corporate governance mechanism is not good enough to prevent these cases of corporate financial transgression and business failures. So, there is a huge need of improvements in corporate governance mechanism. The regulatory framework of any country is

responsible for good governance mechanism so that such cases of financial transgression don't occur. Not only has this, but financial reporting practices which are followed by companies vary drastically across the world. India has its own set of accounting standards and United States has its own US GAAPs (Generally Accepted Accounting Principles) for financial reporting purposes and other countries of the world have another set of standards. So there is no uniformity even in reporting practices across the world which lead to the problem of different and confusing interpretations of such accounting standards across the world creating lot many chances for malpractices.

A. Regulatory Framework of India

Securities and Exchange Board of India (SEBI) and Companies Act, 2013 contains the provisions which are applicable for companies. Guidelines relating to corporate governance practices are given by SEBI and Companies Act. Also, there are accounting standards followed by companies for preparing their financial statements which play major role in presenting a true and fair view of financial statements. Due to non-uniformity of accounting standards across the world, an effort is made to bring harmony in these standards by international bodies by introducing International Financial Reporting Standards (IFRS) which act as single set of high quality standards to make economic decisions. Genuine departure from these IFRS is allowed to avoid any confrontation with applicable laws, economic environment and traditions. Therefore, these IFRS are implemented in India with modifications in its actual form and named as Ind-AS (Indian Accounting Standards). Hence, these Ind-AS (Indian Accounting Standards) are the converged form of IFRS according to traditions, legal and economic environment of India and are issued by the Ministry of Corporate Affairs. Convergence with IFRS may not only help the investors in comparison for making investments but also will lower the risk of errors of judgments. Adoption is, however, done in the phased manner beginning 1-4-2015 as the date for voluntary adoption and from 1-4-2016 and 1-4-2017. Only unlisted companies having net worth of ₹250 crore or more are exempted from following these converged standards. These Ind-AS are still not applicable on banking and insurance companies for whom IFRS are being separately modified.

B. Regulatory Framework of USA

In the United States, the U.S. Securities and Exchange Commission (SEC) is the main regulatory body which acts as an independent federal government agency that is responsible for protecting investors, maintaining fair and orderly functioning of securities markets, and facilitating capital formation. It was created by Congress in 1934 as the first federal regulator of securities markets. The SEC promotes full public disclosure, protects investors against fraudulent and manipulative practices in the market, and monitors corporate takeover actions in the United States. There are various laws that are at the SEC's disposal for accomplishing its objectives. They are Securities Act of 1933, Securities Exchange Act of 1934, Trust Indenture Act of 1939, Investment Company Act of 1940, Investment Advisers Act of 1940, Sarbanes-Oxley Act of 2002, Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Jumpstart Our Business Start-ups Act of 2012. The United States is also having its own set of accounting standards known as US GAAPs (Generally Accepted Accounting Principles). USA has still not adopted IFRS even in its converged form. Even being the developed nation, United States faced many cases of financial transgression, be it by manipulating books of accounts or by violating the laws. So, the United States is now compelled to do more in this field on account of occurrence of such cases of financial transgression.

II. REVIEW OF LITERATURE

A. Global Financial Reporting Convergence

Accounting world is controlled and guided by a single set of standards. The forces of globalization prompted need to recognize the benefits of having commonly accepted and understood financial reporting standards. Such converged accounting standards aim at bringing more transparency in financial matters, thus seek to protect the interests of investors and improve standards of good corporate governance and would also enhance the global competitiveness of Indian Industry [17]. As the complexity of business operations increased and capital markets become increasingly global in nature, more and more investors see the need for a common set of accounting standards [11]. Harmonization of Accounting Standards was needed to create and develop global economy and would result into true and fair presentation of financial statement that could be easily accessible to all the potential users including potential investors [3]. Earnings per share relative to book value of equity, is a stronger explanatory factor of market return in both the pre and post-IFRS convergence periods. Investors rely heavily upon information about earnings released by listed companies while making security price decisions. Investors' reliance on the income statement information for investment decisions became greater in the post IFRS convergence period [14]. According to an empirical study, higher the association between the share price of firms and the accounting information, the more useful the accounting numbers issued by firms were to the valuation decisions of investors, who were an important group of end-users of financial statement information [9]. According to empirical study on the effects of IFRS and financial statements on FDI and Indian Economy, it was seen that there is significant relation between IFRS adoption and FDI in India and those companies who adopt IFRS would be able to generate more funds from foreign sources but Government and the regulators should ensure that there is availability of training facilities and materials for professional accountants on the concept of IFRS and issues relating to its implementation and conversion [15]. It has become difficult for US on accounting issues making US accounting difficult to separate from the rest of the world and continues to explore and develop further improvements in the accounting profession [8]. The adoption of IFRS in India would enhance the comparability between the financial statements of various companies across the globe [2]. The measures taken by ICAI and the other regulatory bodies to facilitate the smooth convergence to IFRS were creditable and give the positive idea that the country was ready for convergence [7].

B. Financial Transgression

The various cases of financial transgression happened in India highlighted that there is a need of true adoption of International Financial Reporting Standards; and fixation of responsibility on independent professionals; intellectualization of audit committee [6]. The various scams happened in India and outside India revealed that these scams were committed by understating expenses, overstating the value of corporate assets or underreporting the existence of liabilities. Ethical issues in accounting are ignored by use of creative accounting. So emphasis should be on the use of Indian Accounting Standards with ethics and code of ethics should be an integral part of professionals [13].

C. Regulatory Framework

By using case study method and by developing a model as a 'working' method, it was examined how far RIL was compliant of CG standards on a 'point-value-system'. This company showed 'very good' performance [4]. The empirical study on the concept of corporate governance and the level of compliance of corporate governance codes by Auto Sector's companies in India concluded that corporate governance scores shows improvement. More compliance of corporate governance increased market credibility of the company that also encouraged companies to become more

transparent and accountable towards their stakeholders [16]. Enron Corporation misguided its shareholders by reporting \$74 billion profit of which \$43 billion was detected as fraud. After the occurrence of Enron scandal, The United States Securities and Exchange Commission (SEC), adopted the Sarbanes-Oxley Act of 2002, introduced 11 chapters or provisions by reshaping the accounting system and designing unique sets of rules and regulations. Section 404 under the Sarbanes-Oxley Act of 2002 requires management and independent auditors to report their findings with accuracy and reliability in the unqualified opinion report. The prohibitions set by Sarbanes-Oxley (SOX) impacted not only the auditors but also professional accountants [10]. The failure of Lehman Brothers revealed multiplicity of factors ranging from dubious accounting practices, unethical management practices, over investment in risky unsecured investments, laxity on the part of regulators. External auditors also played a major part in this failure by not detecting these financial statement malpractices by the Lehman managers. Policy makers such as the International Financial Reporting Standards (IFRS), Security and Exchange Commission (SEC), the Basel Accord etc., ought to initiate stringent policies to address Lehman failure to avert any future occurrence [12]. Various frauds in the Indian financial markets starting from the Harshad Mehta (1992) led to regulatory reforms, forming new institutions and strengthening the institutional framework [5]. Sharda chit fund scam, a Ponzi scheme of West Bengal that looted the hard earned money of several innocent investors, the modus operandi of such schemes shows that there is clear departure of regulatory provisions of law [1].

III. METHODOLOGY

As the era of Liberalization, Privatization and Globalization (LPG) began in 1991 in India and the major financial scams occurred in late 90's both in India as well as USA (being the country with highest GDP) . So, the period starting from 1991 till current year has been taken into account for the purpose of the study of cases of financial transgression which leads to changes in regulatory framework and financial reporting practices.

Following two objectives are designed on the basis of above discussion:

1. To explore the gaps in the regulatory framework which lead to financial transgression in India and USA.
2. To find out whether regulatory reforms made after occurrence of cases of financial transgression were sufficient enough to reduce such cases or not.

IV. RESULTS AND DISCUSSION

The following tables show the summary and reasons of cases of financial transgression in India and USA which reveal the gaps involved in regulatory framework and also the reforms made due to happening of such cases along with the amount involved in these cases:

Table 1: Financial Transgression Cases Happened in India (Amount in Indian Rupees)

<p>Harshad Mehta Scam (Year : 1991) (Amount : 3500 Crores)</p> <p>It was a case of violation of RBI directives & SEBI guidelines. Harshad Mehta exploited the loopholes in financial system through Ready Forward Deal (RF) and the Bank Receipts (BR). Price rigging mechanism was used by him in the stock market.</p> <p>Reform in regulatory framework: No statutory powers were vested with SEBI earlier, but in 1992, statutory powers were given and in 1995, additional statutory powers were given to SEBI so that it could regulate the stock market properly. Those brokers were suspended who were</p>
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acting as Directors and other office bearers of BSE for alleged insider trading.

C.R. Bhansali Scam (Year : 1995) (Amount : 1200 Crores)

People invested money based on attractive schemes run by CR Bhansali. But he transferred this money to his companies to invest in stock market. The fall of stock market in 1995 made bhansali trapped and he lost ₹1200 crores, he could not repay the investors. He also encashed interest warrants from banks particularly SBI, which were in fact fake.

Reform in regulatory framework: CR Bhansali scam was almost done in continuation with Harshad Mehta scam, so whatever powers were assigned to SEBI, that was collective outcome of securities market scams.

Ketan Parekh Scam (Year : 1999) (Amount : 1500 Crores)

It was a case of violation of RBI and SEBI guidelines. Circular trading mechanism was used to rig up the stock market and for this purpose, funds of banks and promoters were used. Ketan Parekh borrowed huge funds from Global Trust Bank and Madhavpura Merchantile Co-operative Bank to buy shares in fictitious names. He dumped the rigged up stocks in financial institutions like UTI and LIC.

The impact of this scam was seen in postponing of sanctioning of private sector mutual funds. Also the Euro issues planned by many Indian companies were delayed. Ketan Parekh was also banned from trading in the stock market till 2017.

Reform in regulatory framework: Trading cycle was cut short from a week to a day by SEBI. Carry forward system in stock trading called “BADLA” was banned. SEBI also withdrew broker control over stock exchanges.

UTI Scam (Year : 2001) (Amount : 4800 Crores)

Ketan Parekh invested much of the UTI money in k10 stocks such as Himachal Futuristic, Zee Telefilms, Global Tele, and DSQ. In 1992, investments were shifted from debt to equity by UTI and repurchased occurred not at NAV of ₹ 8 but at higher price ₹ 14.

Reform in regulatory framework: Immediate steps were taken by government to bring back the faith of the public in UTI and other such government bodies. PSU (Public Sector Undertakings) shares were transferred to a special unit scheme (SUS‘99) subscribed by the government in 1998-99. UTI announced that a realistic dividend policy for US-64 scheme based on the performance of the fund in the market will be made. Finally, US-64 was made fully SEBI regulated scheme.

2G Scam (Year : 2008) (Amount : 1.76 Lakh Crores)

Irregularities were found in awarding spectrum licenses by the then government. Licenses were issued on first come first serve basis instead of public auction. Advancing of cutoff date for applying for licenses was also done which was illegal.

Reform in regulatory framework: e-auctions started by government in awarding spectrum distribution licenses.

Satyam Scam (Year : 2009) (Amount : 8000 Crores)

Overstatement of assets \$1.47bn, non-existent cash shown in bank \$1.04 bn, underreporting of liabilities, ADRs purchased not shown in balance sheet. Falsified revenues, margins and cash balance, operating profit artificially boosted from 61 crores to 649 crores, Violation of disclosure practices in accounting standards, all were included in this scam.

Reform in regulatory framework: Major reforms were done in regulatory system by Ind-AS applicability, Class action litigation, whistle-blowing on frauds by auditors, imposition of criminal liability on auditors, mandatory rotation of audit firms every 10 years, more frequent audit committee meetings. In December 2009, MCA also issued Corporate Governance guidelines based on this fraud.

Sahara Scam (Year : 2010) (Amount : 24000 Crores)

It was a case of violation of capital raising norms and certain sections of Companies Act. SEBI guidelines were not followed while issuing OFCD (Optionally Fully Convertible Debentures). Parabanking activity was run by this company without regulatory disclosure and investor protection.

Reform in regulatory framework: SEBI (issue of Capital Disclosure requirements) Regulation, 2009 already came into existence and later Companies Act 2013 came into existence with stringent norms.

Adidas Scam (Year : 2012) (Amount : 870 Crores)

Former MD & COO was charged with over invoicing ₹147 crores and running false franchisee referred Programme, 114 crores fake invoices, 98 crores Fudging company accounts, operating secret warehouses and violation of disclosure practices in accounting standards were also found in this case.

Reform in regulatory framework: Ind AS applicability was made mandatory since 2016 which are more transparent than earlier accounting standards.

Coal Scam (Year : 2012) (Amount : 1.86 Lakh Crores)

Coal blocks were allotted and not auctioned, leading to estimated losses as per the Comptroller and Auditor General of India. Government policy paralysis came into picture out of this case.

Reform in regulatory framework: Coal block e-auctions started after the occurrence of this case.

Sharda Chitfund Scam (Year : 2013) (Amount : 2460 Crores)

The companies run by this chitfund issued secured debentures and redeemable preferential debt and thereby violated section 67 of Companies Act where a company cannot raise capital from more than 50 people without issuing a proper prospectus. Already Sharda group was challenged by SEBI in 2009 when it opened more than 200 companies and did cross holdings.

Reform in regulatory framework: Serious Fraud Investigation Office (SFIO) provisions brought in Companies Act 2013.

NSEL Scam (National Spot Exchange Limited) (Year : 2013) (Amount : 5000 Crores)

NSEL scam operated around agriculture products which were traded through commodity exchange. NSEL promoter Jignesh Shah by using fake warehouse receipts took its commission amount from Rs 2000 crore (in 2009) to Rs 3 lakh Crores (in 2013). Forward market commission (FMC) raised doubts in 2013 because of many factors like black marketing , profiteering etc. and asked for T+10 contracts only but it could bring only rupees 100 crore whereas contracts were amounting to rupees 5000 crores. Ultimately, it collapsed and Jignesh shah was arrested. Also NSEL CEO Anjani Sinha was arrested. Government banned E-series system.

Reform in regulatory framework: SEBI (Prohibition for insider trading) regulation, 2015 & SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 was introduced to bring more transparency.

PNB (Punjab National Bank)-Nirav Modi Scam (Year : 2018) (Amount : 11400 Crores)

PNB employees issued fake LoUs (Letter of Undertakings), on the back of which foreign branches of a few Indian banks — including Axis and Allahabad Bank — gave dollar loans to PNB. These foreign currency loans were used to fund PNB’s Nostro accounts and from these accounts funds moved to certain overseas parties. A Nostro account is the account an Indian bank (here, PNB) has with an overseas bank. LoUs act as guarantee and buyers’ credit is normally given against 100% margin. On checking the records, it was found that the firms did not have any collateral for such credit. On further investigation into the account, it was revealed that the transactions between PNB and other banks were going on for years without being detected. This was because its software was not integrated with the SWIFT (Society for Worldwide Interbank Financial Telecommunication) messaging system that is used for international transactions.

Reform in regulatory framework: Amendments were made in The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests Act, 2002 or SARFAESI Act by bringing in 2016 “Enforcement of Security Interest and Recovery of Debts Laws and Miscellaneous Provisions (Amendment) Act, 2016. Because of these, bank could recover a huge amount from the sale of assets of Nirav Modi. Although government of India is finding it difficult to bring back Mr Nirav Modi from USA because of weak treaties between India and other countries.

Table 2: Financial Transgression Cases Happened in USA (Amount in US Dollar)

California Micro Devices (USA) (Year : 1994) (Amount : 139 Million)

Every possible creative accounting technique was used to boost the revenue for doing this securities fraud and insider trading. Revenues were booked when an order came in, not when the product shipped. Products were shipped to customers that did not order merchandise and to freight forwarders to store until it is shipped to a legitimate customer or returned. Fake invoices and shipping documents were created to make it appear as if legitimate sales went out to real customers. Not only were this but invoices created for non-existent companies. Records were created to make it look as if the title had been transferred on unshipped or fake goods.

Reform in regulatory framework: International Financial Reporting Standards were given importance by US who was not ready earlier to part way with US GAAPs.

Bre-X Minerals (USA) (Year : 1997) (Amount : 6 Billion)

Bre-X Minerals Ltd was actually a Canadian Gold Mining Company. In 1997, an independent Mining Consultant concluded that the company had overstated the size of the Busang Gold Deposit in Indonesia. Investors felt the heat in this regard when the Company’s Geologist committed suicide by ‘jumping’ from a company helicopter. Shares in the company that were once valued at more than \$6 billion became worthless. The Company’s Founder and CEO, who died of natural causes soon after the fraud became public, was never charged in the matter.

Reform in regulatory framework: This case set the tone for changes in regulatory framework which ultimately resulted in formation of Sarbanes-Oxley Act, (SOX) in 2002.

World Com Scam (USA) (Year : 2002) (Amount : 7 Billion)

It was a case of fraudulent financial reporting. According to internal audit report, Transfers were not according to US GAAPs and reserves were shown as operating income. Internal audit had discovered that \$3.3bn in profits were improperly recorded on its books from 1999 to the first quarter of 2002.

Reform in regulatory framework: Sarbanes-Oxley Act, 2002 was passed by US government wherein internal auditing procedures were made strong so that accounting irregularities can be traced and duly penalized. Penalties for destroying, altering or fabricating records were also increased in this act.

Enron Scam (USA) (Energy company) (Year : 2001) (Amount : 43 Billion)

The mark-to-market method was used by this company which requires estimations of future incomes when a long-term contract is signed. According to this method, the estimated income from projects were included in Enron's accounting even though the money was not yet received and if there were any changes such as additional income or loss it would show up in subsequent periods. Investors were given misleading information because of the deviation in the estimations. Enron was the first non-financial company to use the mark-to-market method. The U.S. Securities and Exchange Commission gave Enron its approval to use the method on January 30, 1992. This ultimately led to collapse of Enron being revenues were recorded on anticipation basis which were never received.

Reform in regulatory framework: Sarbanes-Oxley Act, 2002 was passed by US government wherein internal auditing procedures were made strong so that accounting irregularities can be traced and duly penalized. Penalties for destroying, altering or fabricating records were also increased in this act. This act increased accountability of auditing firms to remain unbiased and independent of their clients.

Xerox Corp Scam (USA) (Year : 2002) (Amount : 2 Billion)

Two creative accounting methods of recording the revenue were adopted by this company which led to collapse of this company later. The first was the so-called "cookie jar" method. This involved improperly storing revenue off the balance sheet and then releasing the stored funds at strategic times in order to boost lagging earnings for a particular quarter. The second method—and what accounted for the larger part of the fraudulent earnings—was the acceleration of revenue from short-term equipment rentals, which were improperly classified as long-term leases. The difference was significant because according to the Generally Accepted Accounting Principles (GAAP)—the standards by which a company's books are supposed to be measured—the entire value of a long-term lease can be included as revenue in the first year of the agreement. The value of a rental, on the other hand, is spread out over the duration of the contract. Use of both these methods led to the collapse of this organisation.

Reform in regulatory framework: Sarbanes-Oxley Act, 2002 was passed by US government because of series of scams occurred at this time in USA wherein mainly financial irregularities were found by using creative accounting. This act increased accountability of auditing firms to remain unbiased and independent of their clients.

Adelphia Communications (USA) (Year : 2002) (Amount : 2.3 Billion)

It was a case of fraudulent financial reporting and misappropriation of assets. Between 1991 and 2001, the company had deliberately excluded \$2.3 billion in bank debt from the financial statements. The debt did not appear as a liability on the company's balance sheet because it was hidden in the accounting records of off-balance sheet affiliates. Allegations against members of the Company's founding family relate to employing company assets for personal use and also steps taken to hide developing financial problems.

Reform in regulatory framework: Sarbanes-Oxley Act, 2002 was passed with harsh penalties for auditors to fix the responsibility.

Tyco International (USA) (Year : 2002) (Amount : 400 Million)

It was a story of corporate greed and looting. The Company's CEO was found guilty of misappropriating shareholders' funds. It was misappropriated money, he spent on purchasing and

decorating his own residences, on travel, lavish parties and expensive art. There were major accounting problems at Tyco. A key element of the misdeeds entailed improper cost capitalisation. The Company capitalised costs that should have been expensed, boosting assets and income in the process.

Reform in regulatory framework: Sarbanes-Oxley Act, 2002 was passed.

Health south (USA) (Year : 2004) (Amount : 2.7 Billion)

Creative accounting was used to do this scam. The executives of the company followed three basic steps while committing the fraud: 1) Company officials compared their internal financial statements to see if they would meet analyst expectations. 2) If earnings appeared to be short, managers were told to fix them and manipulate the results in any way necessary. 3) False documents were created to conceal the false entries added to the financial statements.

Reform in regulatory framework: No stringent measure was adopted as far as regulatory environment was concerned.

Lehmann Bros Debacle (USA) (Year : 2008) (Amount : 600 Billion)

It was fourth largest US investment bank with 25000 employees. Its huge portfolio of mortgage securities made it increasingly vulnerable to deteriorating market conditions. Cracks in the U.S. housing market were apparent as defaults on subprime mortgages rose to a seven-year high. Ultimately it could not recoup its losses and Lehmann Brothers collapsed.

Reform in regulatory framework: International Financial Reporting Standards, SEC, the Basel Accord initiated stringent policies to address Lehman failure to avert any future occurrence.

Bear Stearns (USA) (Year : 2008) (Amount : 1.6 Billion)

It was a case of over-leveraged portfolio which ultimately precipitated a liquidity crisis for the bank. One of the components of Bear's funding strategy was the setting up of two investment funds offering income streams derived from collateralised securities bought on the open market and then repackaged by Bear for subsequent sale to its investors. Creative accounting was used by Bear, entirely lawfully, to convert high risk assets into lower risk repackaged products which could be sold at lower yields than would otherwise have been the case if they had remained in their original disaggregated state.

Reform in regulatory framework: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was introduced to protect the rights of the consumers.

Madoff Securities International Ltd (USA) (Year : 2008) (Amount : 65 Billion)

Bernard Madoff used creative accounting to perpetrate one of the largest frauds in history involving a series of financial crimes. He was sentenced to 150 years' imprisonment. At the heart of his strategy was the setting up of a 'Ponzi' scheme in which investors were paid returns far in excess of market performance funded from capital provided by new entrants to the scheme. Rumours of fraud led to a refusal by investors to subscribe to Madoff's new investment trusts, set up in a desperate attempt to raise fresh capital which became the ultimate reason of collapse of this company.

Reform in regulatory framework: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and Jumpstart Our Business Startups Act of 2012 were introduced to protect the interests of consumers and investors.

Wells Fargo Account Fraud Scam (Year : 2016) (Amount : 185 Million)

The Wells Fargo account fraud scandal was the creation of millions of fraudulent savings and checking accounts on behalf of Wells Fargo clients without their consent. Wells Fargo clients began to notice the fraud after being charged unanticipated fees and receiving unexpected credit or debit cards or lines of credit. The company had to face additional civil and criminal suits. It

was found that employees were encouraged to order credit cards for pre-approved customers without their consent, and to use their own contact information when filling out requests to prevent customers from discovering the fraud.

Reform in regulatory framework: Federal Reserve, the central bank of USA, used its powers to put stringent penalties on the board of the bank for failing to oversee the bank. Also rules were made hard by Central Bank for the banks in 2016 which were relaxed in 2018.

Analysis of data given in table 1

The above table briefly examines the major cases of financial transgression occurred in India. The first case of financial transgression which shocked the stock market was Harshad Mehta case duping ₹3500 crores of investors. Afterward, various scams like C.R Bhansali Scam, Ketan Parekh Scam, 2G scam etc. came into lime light. It is evident from this table that no wonder a scam occurred but government could not visualize the things in advance whereas when the provisions and rules are flouted, one can easily judge the magnitude and cause of the problem. However, all these scams led to changes in the regulatory framework and law concerning that, but it was too late. After Harshad Mehta Case, SEBI was empowered with statutory powers. Rolling settlement system was made compulsory. Those brokers were suspended who were acting as Directors and other office bearers of BSE for alleged insider trading. SEBI also banned naked short sales in March 2001. After 2G scam, the Government initiated E-Auctions, after Satyam scam, Government made it mandatory to rotate Audit Firm after 10 years. A big change that could be seen was in Companies Act, 1956 which was replaced with Companies Act, 2013. Provisions relating to Class Action Suit and Whistleblower policy were introduced in this Companies Act, 2013 because it originated from Satyam scam as investors of USA had the privilege of filing class action suit. After the NSEL scam, Arvind Mayaram panel was constituted by government and FMC (Forward market commission) which was under consumer affairs ministry earlier, was shifted to finance ministry.

From the above discussion, it's clear that regulatory bodies have taken several measures to overcome the menace of financial transgression. Many committees were constituted like Narayan Murthy committee in India, which was constituted by SEBI to focus on the quality of financial disclosures and role of audit committee as well as the role of independent directors. SEBI was also empowered on different occasions by bringing new regulations. In 2009, SEBI (issue of Capital Disclosure Requirements) Regulation, 2009 was introduced. This was introduced to bring more transparency while issuing capital to general public. It was amended in August, 2017. Again SEBI (Prohibition for insider trading) regulation, 2015 was brought in so as to bring more transparency in the working of companies and to avoid insider trading. In 2015, again another regulation namely SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 which was amended in February 2017, was introduced to overcome the shortcomings of clause 49 of listing agreement. Finally, India has adopted IFRS in the converged form beginning 1-4-2016 to have uniformity in its accounting language along with the rest of the world.

Analysis of data given in table 2

The above table briefly examines the major financial transgression cases of USA. In USA, the various cases of Financial Transgression duped millions of dollars of Investors. The scams like World Com scam, Enron Scam, Xerox Corporation Scam, Lehman Brothers Scam, Adelphia

Communications scam occurred due to malpractices used in Accounting Systems. They inflated their profits to show better positions to attract investors. Government and other regulatory agencies took various steps to regulate the financial systems of the companies. After Xerox scam, Enron scam, Government of USA enforced Sarbanes-Oxley Act, 2002 to overcome accounting irregularities and the weak auditing standard procedures. The U.S. Securities and Exchange Commission (SEC), the Basel Accord initiated stringent policies to address Lehman failure to avert any future occurrence. Thereafter it came with two more Acts namely Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and Jumpstart Our Business Startups Act of 2012 to protect the interests of consumers and investors. No wonder, US passed many regulations to overcome the problem of financial transgression, but we must not forget that the implementation cost for individual company was quite high e.g. in case of Sarbanes Oxley Act, 2002, according to section 404, Although provision were made for stringent internal controls but the cost of implementing such internal control was in million dollars. Moreover, lapses were supposed to be on the part of companies but the real problem was seen with Securities and Exchange Commission (SEC) because it was SEC who permitted the controversial things like in case of Enron, mark to market method was approved by SEC which ultimately proved to be fatal not only for Enron but also for the whole US economy. Also the central bank of USA i.e. Federal Reserve used its powers to put harsh penalties on Wells Fargo board after the fiasco and came out with stringent rules for the banks. US GAAPs were not replaced by IFRS even after so much creative accounting scams.

V. CONCLUSION

Cases of financial transgression have occurred at a very rapid pace in the past. Perpetrators used to fly away to some safe heavens where we don't have strong treaties to bring them back to punish the guilty. This has happened in case of Vijay Mallya (kingfisher Airlines owner) and Nirav Modi (PNB-Nirav Modi Scam). So need is to take strong measures to have strong treaties with such countries. India has also enacted Fugitive Economic Offenders Act, 2018 which is an effective, expeditious and constitutional way to stop these offenders from running away and allowing government agencies to confiscate the assets of such absconders till they don't present themselves before the courts. If a guilty is punished, that always acts as an example for the others not to commit such things. India should learn a lesson from USA that after various scandals occurred in the USA in late 90s and early years of 2000-2010, USA came with the very stringent Act namely Sarbanes Oxley Act, 2002. After this act, there was a big fall in cases of financial transgression. Corporate Governance mechanism will have to be made strong for companies and it will have to be linked with remuneration in such a manner that Directors who look after the affairs of the companies will not be encouraged to involve in such cases. There is utmost necessity to train the academicians first so that they can train the young generations in the field of accountancy to face the challenges posed by this convergence process i.e. adoption of IFRS. Regulatory Bodies and Governments should be more alert and responsive whenever they come across any such case of financial transgression or gets a hint that there is something fishy going on. It has been observed that major loopholes are there in Indian regulatory framework rather than in USA due to which India is regularly witnessing the cases of financial transgression. Even after USA proactively changed the rules yet the financial transgression cases have not been fully eliminated by it. In India and USA however, due to changes in the relevant regulatory framework, remarkable reduction in number of such cases has been reported. United States has not yet adopted IFRS even in its converged form. Cases of financial transgression have shaken the economy of United States very badly. When more than 100 countries have implemented IFRS, the United States is now facing the pressure of not implementing IFRS and compelled and expected to do more on account of occurrence

of such cases of financial transgression. Due to very rapid changes in technology, perpetrators are finding new ways to do such financial scams. So there is great need on the part of both the countries to keep pace with such changes in technology and keep on changing the regulations on continuous basis.

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ROADMAP TOWARDS SUSTAINABILITY

A MULTI-DIMENSIONAL VIEW



EDITORS

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Corporate Financial Transgression in India: Reasons and Remedies- A Review

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Abstract

The fraudulent activities not only cause financial harm to the organisation but also reduces its capacity to deal with the domestic and international markets. The financial transgression activities are widely present in every country and hampering the monetary working of the organisations and the economy. It gives rise to the necessity for implementing stringent policies and practices so that financial transgression activities are entirely prevented. This study will be useful to the policymakers, firms, banking organizations, as they will get better learning opportunities about corporate financial transgression and they can accordingly introduce stringent measures or policies that would deter the fraudsters and scammers from carrying out any illegal activity. Further, the study will be beneficial to banking

organizations and institutions as they will get better learning about the corporate financial transgression and policies that are adopted by nations to fight against financial frauds. A qualitative change is expected from this study that will not help the investors in gaining strength to invest in India but also across the world.

Keywords: *Transgression, Scams, SEBI, Companies, Corporate Governance*

1. Introduction

In the context of India, two main bodies regulate the companies. One is the Securities and Exchange Board of India (SEBI) and the second is the Companies Act, 2013 which was replaced with the Companies Act, 1956 and came into existence in 2013. All the accounting standards which apply to companies are issued by the Ministry of Corporate Affairs (MCA). These accounting standards play a vital role in presenting a true and fair view of the financial statements of the companies. Ind-AS also come under the purview of MCA. When India adopted the converged standards in 2015, from then onwards, the applicability of those standards started on various companies as per the criteria mentioned. At present, Ind-AS apply to all the listed companies of India.

Guidelines relating to corporate governance are also given in the Companies Act, 2013 in specific sections and also given by SEBI. Both these bodies have made many committees and codes for developing guidelines on corporate governance in India which were headed by renowned business tycoons. A very recent committee that was formed was Kotak Committee in 2017 under the chairmanship of Mr. Uday Kotak who gave its recommendations and almost all were accepted barring a few with no modifications or with little modification.

1.1. Financial Transgression and gaps in Regulatory framework

Financial transgression is referred to as an illegal activity that is performed by an individual, or firm in terms of financial conspiracy or monetary fraud (Majumdar 2012). It majorly occurs when there is a gap between the current

financial reporting practices and the regulatory framework. These gaps though do not appear on the surface but are present in the underneath levels. From the Harshad Mehta scam in 1991 to the banking scams of Yes Bank and PMC bank in recent years, gaps in the regulatory framework have been found, that impacted the financial conditions of India adversely. It can be said that identification, examination, and prosecution in case of financial transgression are necessary to reduce the occurrence of fraudulent cases.

The present paper is a review paper wherein an attempt has been made to find the reasons for corporate financial transgression and its remedies based on the literature available. The era of financial transgression began in the 1990s in India and outside India. In India, it started from the stock market kingpin Harshad Mehta in 1991. So, the period starting from 1991 till date has been selected purposely.

2. Review of Literature

The activities of financial transgression can be in the form of the wrong presentation of financial statements, misappropriation of accounts, fraudulent corporate reporting, and misusing of funds. All these unethical financial activities negatively impact the interests of the investors, stakeholders, and government agencies and reduce the trust of common people in working for a company. Aggarwal & Dhiman (2019) explained that Financial Transgression is the act that is against the rule of law which results in catastrophe for the Corporate Sector, Regulatory Authority and economy of the concerned state. There is a dire need in India to make changes in various regulations continuously as well as to take stringent action against the culprits. To avoid or minimize such cases of financial transgression, the regulators and Government should always be alert and should take immediate action as soon as they come across any such case.

Bhagat & Bolton (2008) analyzed that developing and developed countries both are facing issues relating to financial transgressions as it causes harm to both, governing agency and the common population. There are several ways in which

financial transgression activities are performed recording a fake income, recording income from backdates or registering fake income that has never been received by the firm or recording backdate revenue in the current accounting procedure. The misappropriation of the financial accounts not only hampers the working of the firm but also creates hindrances in future business operations.

Bhasin (2013) analyzed that a regulatory framework has been established by India in the form of the SEBI to strengthen the appropriate financial reporting activities. The Companies Act, 1956 has been modified in 2013 so that the corporate governance practices are performed authentically and legally. Thus, SEBI and Companies Act 2013 provides adequate corporate governance guidelines so that accounting standards are maintained and financial statements are prepared as true and fair accounting practices. Desai (2016) analyzed that despite the stringent workings of the regulatory bodies, several cases of financial transgression have been observed in the Indian commercial sector since 1991. Therefore, it has become essential to introduce reforms in the working of the regulatory bodies so that the financial reporting system is strengthened in India. Pasha et al. (2012) found in their study that the regulatory body SEBI has done a splendid job by taking care of all the complaints filed in the past with it and resolving them. Pillai et al. (2014) discussed the cases of insider trading of the Reebok-Adidas merger and the Rajat Gupta Case which resulted in huge losses for the investors and suggested strong regulatory measures through SEBI along with a good internal governance code to avoid such cases.

Kukreja& Brown (2016) found that Auditors were also failed in applying auditing standards along with deliberate ignorance of adopting the latest software with the help of which manipulations in accounting can be stopped. Cuomo et al. (2016) examined that it is essential to introduce stringent policies and regulations so that the failure in the corporate governance practices is identified and resolved. Alawi et al.(2018) recommended that audit firms should provide training to the audit staff that how to utilize the required efforts in conducting an audit engagement and go the extra mile to fill the gap.

Furthermore, the auditors should keep themselves updated about the latest frauds and the best audit practices.

Muniraju & Ganesh (2016) examined that the financial transgression case such as the Satyam fraud negatively influenced future foreign investment flows within the Indian economic sector and highlighted the issues and loopholes that were present in the then Indian accounting standards and intensified the need for regulating or modifying the Indian accounting processes. They further discussed that Serious Fraud Investigation Office (SFIO), SEBI (LODR) Regulation, 2015, and SEBI (Prohibition for insider trading) regulation, 2015 have been introduced for investigation of financial reporting by the companies and to increase clarity and transparency in the accounting process in the Indian firms.

Parmar (2015) has discussed in her paper how ethical issues in accounting are ignored by underreporting income, falsifying documents and by use of creative accounting. She emphasized the use of Indian Accounting Standards with ethics and concluded that the code of ethics should be an integral part of professionals. Gupta & Gupta (2015) in their study found that there is an utmost necessity that the role of auditors should be redefined. Frauds are not being reported and also no fraud prevention policy is publicized. Members of the board are not professional and financial institutions including banks are ineffective and are not following the wisdom to handle the matters relating to scams. The researchers finally suggested that IFRS should be adopted in a true sense and the responsibility of audit firms should be fixed.

Wadhwa & Pal (2012), Malusare (2013), Lohana (2013), Mishra (2014) discussed the various scams which happened in India and highlighted the point that our banking, insurance and police agencies are not equipped with modern techniques to stop these scams and urged the need of implementing the use of new techniques to stop these scams like Forensic Accounting and emphasised the need for a code of ethics and authority to implement ethics in the companies.

Khurana (2016) discussed the importance of Corporate Governance by discussing the case study of Satyam Computers and urged the need of implementing Corporate Governance in a

full fledged way. Bajpai & Mehta (2014) evaluated the Corporate Governance norms by taking certain parameters of two Corporate giants ITC and ONGC by applying the Chi-Square test and found that both the companies are having only one person as Chairman and Managing Directors whereas they suggested that both these positions should be separated and should be assigned to two different individuals to avoid conflict of interest. Sharma (2013) examined critically through this empirical study the corporate governance norms followed in the Auto sector of India. The study shows that more compliance with corporate governance norms increased the market credibility of the company that also encouraged companies to become more transparent and accountable towards their stakeholders.

Ponduri et al. (2014) discussed various corporate frauds, the genesis of the frauds, people responsible for various frauds and codes implemented and committees that were formed by regulatory bodies to prevent frauds. Many committees were formed to do the same thing in India e.g. Kumar Manglam Birla Committee and Narayan Murthy Committee were established by SEBI to work upon the measures to be adopted for corporate governance in India after seeing the pathetic condition of Worldcom, Enron and other corporate catastrophes who failed because of violation of corporate governance norms along with many other violations. Dhanaiah & Prasad (2016) discussed various frauds in the Indian financial markets starting from the Harshad Mehta (1992) to Saradha Group Financial Scandal (2013) and discussed the positivity that occurred due to the occurrence of these scams in the form of regulatory reforms and the formation and strengthening of the institutions. Arrawatia & Pandey (2016) explained the Sharda chit fund scam, a Ponzi scheme of West Bengal that looted the hard earned money of several innocent investors. Khuntia (2014) examined that to reduce the inappropriate financial reporting activities, the Indian government has introduced modifications in the Companies Act, 2013 so that the anti-fraud mechanism is developed to fraudulent activities that are faced by businesses.

3. Analysis and Interpretation

Based on above reviews, following is a table which is prepared to know the cases of corporate financial transgression in India.

Table 1 :Cases of Financial Transgression in India

Sr no	Name	Year
1.	Harshad Mehta Scam	1991
2.	C.R. Bhansali Scam	1995
3.	Ketan Parekh Scam	1999
4.	UTI Scam	2001
5.	2G Scam	2008
6.	Satyam Scam	2009
7.	Citibank fraud	2010
8.	Sahara Scam	2010
9.	Speak asia	2010
10.	Antrix Devas Controversy	2011
11.	Adidas Scam	2012
12.	Coal Scam	2012
13.	ShardaChitfund Scam	2013
14.	NSEL Scam	2013
15.	Vijaya Mallya willful default case	2016
16.	PNB -NiravModi Scam	2018
17.	Rotomac	2018

18.	IL & FS	2019
19.	DHFL	2019
20.	PMC Bank	2019
21.	Yes Bank	2020

Based on above table 1 relating to various cases of financial transgression happened in India since the beginning of the LPG regime in 1991, following reasons are found for their occurrence as follows:

- Violation of Regulatory guidelines
- Violation of banking norms
- Use of Creative Accounting
- Nonuniformity of accounting standards across countries
- Greed of individuals
- Luxurious lifestyles of top executives
- Wilful defaulter of banks
- Overstatement of profits
- Fake invoices to manipulate accounts
- Siphoning off money to personal accounts
- Government policy failures

All these reasons can well be taken as a benchmark by any organization so that a proper internal control system can be employed to avoid such causes of financial transgression in the corporate world.

4. Amendments made in regulatory framework and Remedies Available

In the case of Rotomac and DHFL, funds were siphoned off to promoters' own accounts in other countries by taking the assistance of Shell companies. Although, around six lakh shell companies have already been closed down by the present government which is a welcome step to curb the menace of financial transgression.

The amendments made in the regulatory framework reveals that in spite of taking corrective measures in the form of changes in the regulatory framework, cases could not be minimized rather PNB Nirav Modi scam and Kingfisher Airlines debacle, both perpetrators ran to the UK and are still absconding. Not only this, but cases of PMC bank, DHFL crisis, IL FS crisis and Yes Bank crisis have proved that measures taken were not sufficient. Also, the banking system in India has still not adopted converged IFRS i.e. Ind-AS. It will not be exaggeration to say that Yes Bank, PMC bank, PNB Nirav Modi all banking crisis when banks have not adopted Ind-AS. There are more disclosure requirements in Ind-AS. Have that been adopted, These scams could have unearthed earlier or they might not have occurred. So there is a dire need to adopt Ind-AS in the banking system also in India. After going through the various points of developments on the issue of corporate governance, it can be said that the pace with which improvements have been seen is really tremendous as far as listed companies are concerned. Companies are feeling the heat of having these stringent measures being adopted, still, it is a big issue for the banks whether public or private and we must not forget that cases of financial transgression occur in connivance with banks and bank officials.

The remuneration of the directors must be linked to the decisions taken and their outcome so that they would not indulge in fraudulent activities. Also, training must be given to all the academicians so that the younger generations get to know about the quick changes made in the regulations and their implementation. In some cases, the unwillingness of the party in the Government to punish the wrongdoers has also been observed. Therefore, half-hearted changes in the framework did not add to improve this situation. Different regulations need to be formulated to avoid cases of financial transgression in the future. Modernisation and the upgradation of technology are helping criminals to find ways for committing fraud. It is required to have an understanding of the technology and formulate regulations on a regular basis. Quick and strict actions must be taken against these people committing fraud. Monitoring the procedures and regulatory framework would help reduce such corporate scandals.

5. Conclusion

This study is done to find why India is in bad shape as far as the cases of financial transgressions are concerned because it not only affects the organisations but the economy of the whole country. Also, we have seen many monumental problems because of the occurrence of such cases. On the basis of discussion, we can conclude that the greed and lust of people are increasing day by day. Public money is used to commit fraud and the regulatory system is used to escape in India. There should be the coherence of punishing the wrongdoers simultaneously and he should not be allowed to escape. Moreover, public money should be taken care of at every cost whatever be the cost. The trouble with India is not that of using remedy but afterward. Whenever remedy is taken, there is no proper follow-up. The punishment was given to the general public when they were deprived to withdraw their money which was their whole life savings in few cases and the same happened in the case of Yes Bank. There is a need to check this problem, which may become huge in coming times. These are the reasons due to which our country could not come under the category of developed nations, otherwise India has huge potential to be at the top at any point in time but we need to work very hard and take stringent measures.

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