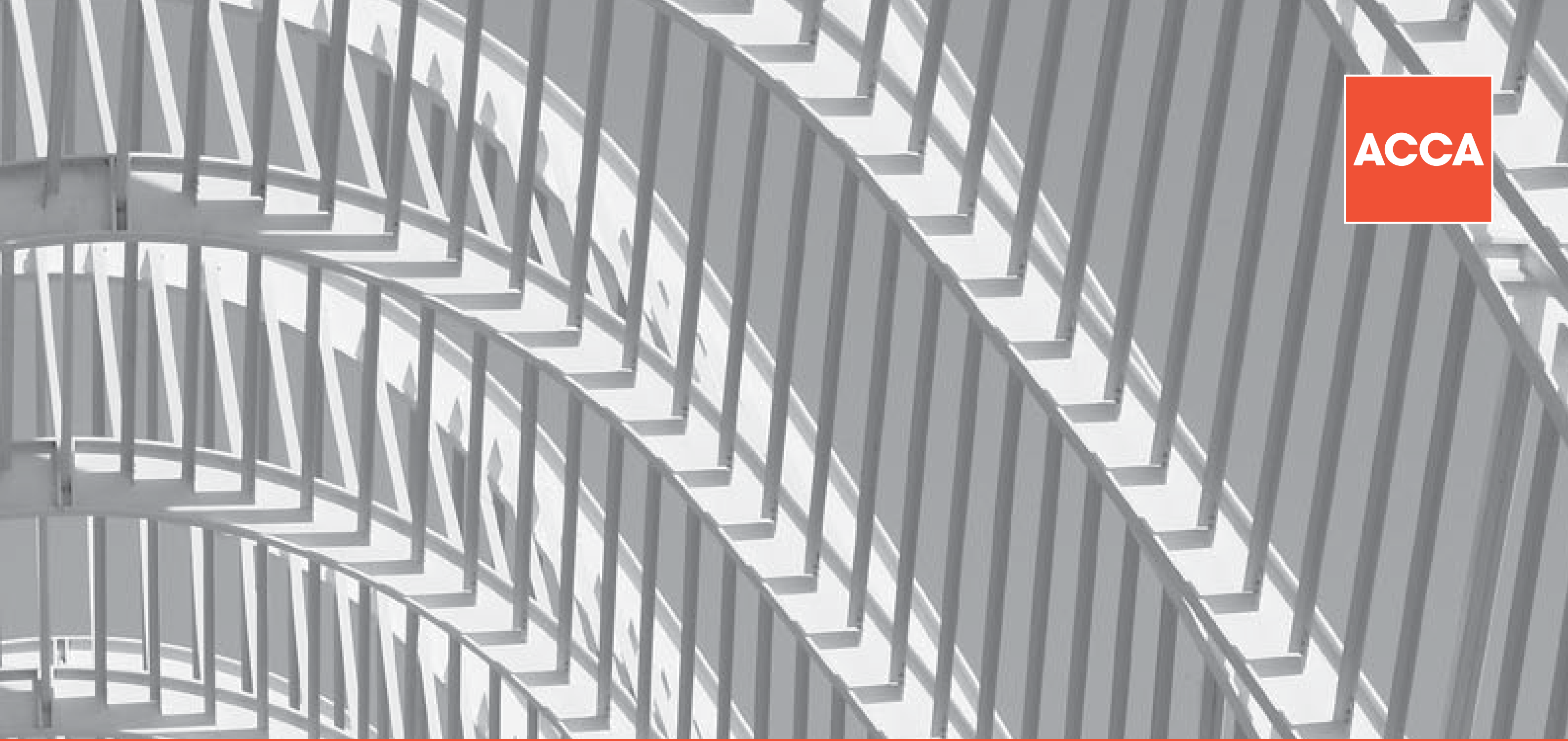
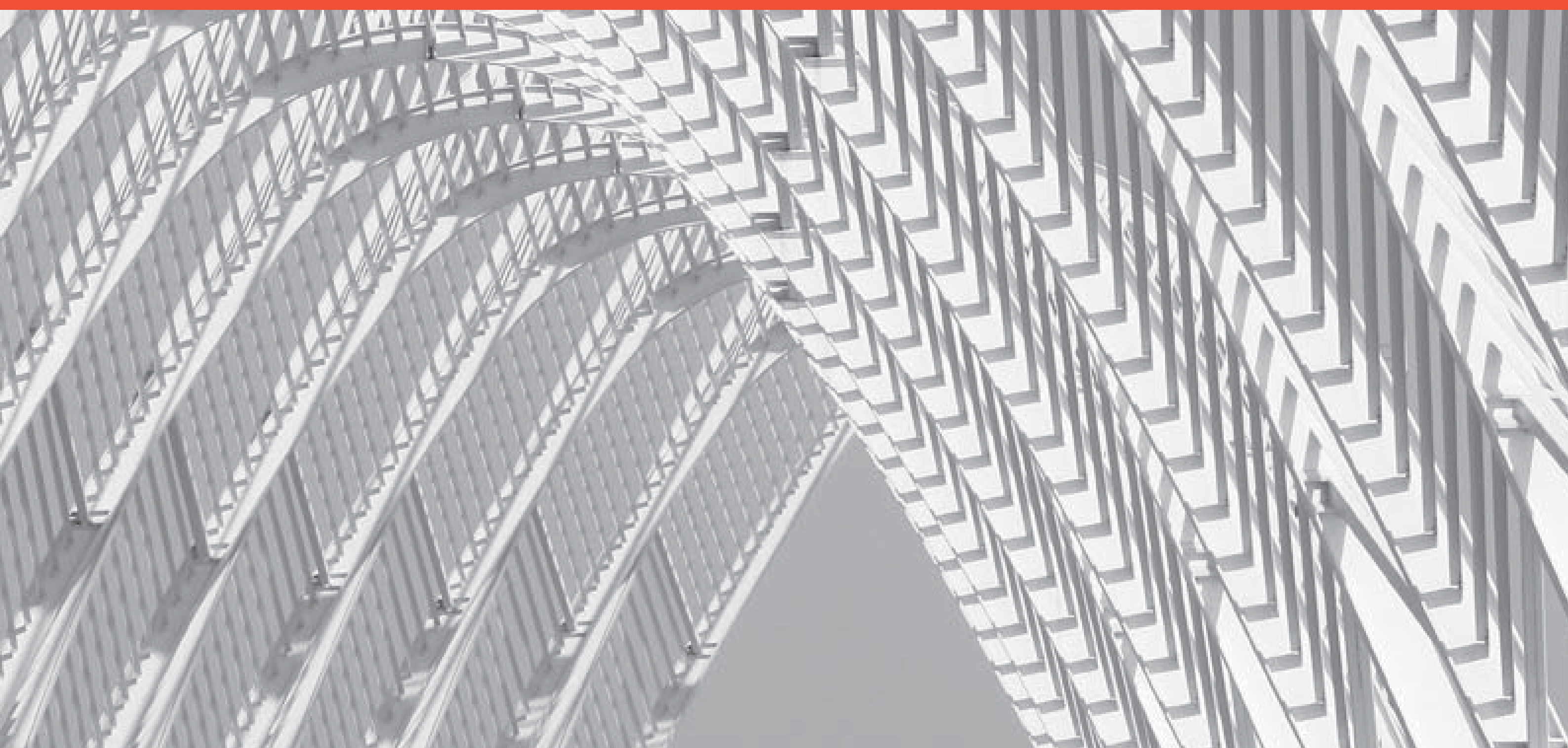


ACCA

Recovery and new beginnings

G20 SUMMIT, TORONTO, 26–27 JUNE 2010



About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies at all stages of their development. We seek to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, developing our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 140,000 members and 404,000 students in 170 countries, helping them to develop successful careers in accounting and business, based on the skills required by employers. We work through a network of 83 offices and centres and more than 8,000 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

ACCA has played an active role in influencing the G20 discussions, including the production of our position papers on the 1 April and 1 September summits, both of which included analysis and recommendations to leaders and policy makers in advance of the meetings.

Introduction by Helen Brand

On 26–27 June 2010, Toronto will host the next summit of the G20. Around 1,500 delegates, including heads of state, will attend, along with more than 2,000 members of the media. The theme of the summit is 'recovery and new beginnings'.

Over two days, G20 leaders will examine the success of the efforts to date to address the global financial crisis, assess what progress has been made along the road to recovery, and renew their efforts to deliver on promises made at previous summits.

While the darkest days of the crisis may be over, an atmosphere of financial uncertainty remains prevalent. As the World Bank forecast for 2010 states: 'The acute phase of the financial crisis has passed and a global economic recovery is underway. However, the recovery remains fragile and is expected to slow in the second half of 2010 as the growth impact of fiscal and monetary measures wane and the current inventory cycle runs its course.'[1]

High unemployment and low growth represent persistent risks in developed countries. And with international aid finance and scarce international financing for developing countries, the poorest countries especially will need sustained assistance to move beyond the crisis.

This paper draws on ACCA's expertise in areas including tax, finance and corporate governance to arrive at a series of recommendations to policy makers around the world on areas including the developing role of the G20, accounting standards, financial sector reform, and strong, sustainable and balanced growth.

We believe that these steps, if followed, would assist in ensuring a sustainable global recovery and stability for the long term.

Helen Brand
Chief Executive, ACCA

1. World Bank, *Prospects for the Global Economy,* Global Economic Prospects, 2010.

Summary of recommendations

1. ACCA believes that a formal agreement should recognise the cementing of the G20 as an entity. Integral to this will be the establishment of a permanent secretariat for the forum to ensure its effective operation.

2. World leaders should give serious consideration to the G20's future role as a long-term feature of global governance, whose mandate extends beyond the present crisis, and beyond economic issues.

3. ACCA calls on G20 nations to examine ways in which the interests of smaller economies can be better represented at the forum.

4. The G20 should draw upon the experience of voluntary forums such as the OECD and APEC to arrive at robust principles for decision-making on significant international issues. The decisions it makes will be best implemented through existing multilateral bodies such as the IMF and WTO.

5. Underlying the credit crisis was a fundamental failure at Board level. ACCA believes good corporate governance should headline the G20's financial agenda.

6. While ACCA recognises the welcome effect on market confidence of the G20's pledges to date, we call on the Group to take tangible steps to realise these worthy commitments.

7. Though mitigating public anger is understandably a political imperative for governments, policymakers must not default to appeasement measures in lieu of substantial reform.

8. ACCA calls on the G20 to maintain its leadership of the global financial agenda, working to sustain commitment to global accounting standards and avert national or regional versions of IASB-issued IFRS arising.

9. ACCA recommends that the IASB now shifts from standard setting driven primarily by US convergence to an agenda directed to the maintenance and improvement of a set of standards broadly accepted around the world.

10. ACCA urges the IASB to diversify their organisational structures, in order to instil confidence, among all countries and stakeholder groups involved, that their views are adequately reflected.

11. The credibility of standards and standard-setters themselves are integral to market confidence. In the interests of speedy economic recovery, ACCA firmly believes that international accounting standards should be set by an independent board which is accountable but protected from undue political pressure.

12. ACCA urges the US to adopt IFRS starting with a decision from SEC before the end of 2011.

13. ACCA asserts that the failure of regulation manifest in the global financial crisis will not be remedied by a heavy-handed approach. The buy-in of both sides is key; leaders must work with regulators and regulated alike to devise a principles-based, effectively enforced regulatory framework to secure the future integrity of the global economy.

14. ACCA urges the G20 to turn its stated pledge to see commitment to integrity in financial institutions into reality, by encouraging moves to instill ethical business codes and better risk management functions in the financial and corporate sectors. The capacity of non-executive directors to exercise meaningful oversight of the executive within large complex banks requires particular attention.

15. The protection of consumers' and shareholders' interests must lie at the heart of any future regulatory framework for banks. To this end, ACCA views the promotion of competition within the sector as a matter of priority, alongside the establishment in Europe of a US-style Consumer Financial Protection Agency. We urge the G20 to seriously consider the reintroduction of a Glass–Steagall-type measure to separate retail from investment banking.

16. While international co-ordination is to be welcomed, ACCA considers that the introduction of any 'super-regulator' would engender a sense of remoteness and, consequently, a reluctance to comply. National supervision must remain the bedrock of regulation.

17. Complacency risks plunging the global economy back into danger. ACCA recommends that while recent indications of economic expansion give cause for cautious optimism, it is too soon to abandon stimulus programmes. Before any withdrawal of stimulus, there must be a complete exit strategy in place.

18. ACCA notes that current demand in many major economies is sustained by exceptional policy measures. While this unprecedented intervention averted a much worse crisis, governments must now devise credible, medium-term plans to address the shortfalls in public finances arising from reduced tax yields and their necessary erstwhile support.

19. ACCA believes G20 leaders must make best use of the information available to them to assess the current economic conditions and carefully consider the need for further global fiscal stimulus.

20. Although much of the focus is on the short-term recovery and improving the regulation of the financial sector, ACCA believes that sustainability and tackling climate change should be embedded in the G20 agenda and that the group should make clearer commitments in these areas.

21. The G20 should consider addressing these issues through plans to reform business reporting rules, to require greater disclosure of firms' environmental, social and governance practices.

22. The G20 should champion the opportunity and an incentive provided by the financial crisis for global investment in energy-efficient technologies and renewable energy, creating green jobs and low-carbon growth, and laying the foundations of long-term, sustainable economic prosperity.

The role of the G20

The G20 was established in 1999 in the wake of the Asian financial crisis as a forum for cooperation and consultation on matters relating to the international financial system. Yet though its origins predate the financial crisis by a decade, the forum is, in many ways, a product of recent events.

Representing the world's 20 leading industrialised and emerging economies, and accounting for 90% of the world's GDP, the G20 is a more representative and inclusive global steering committee than the Group of Eight (G8); China, India, Brazil, Saudi Arabia, Argentina, Turkey, Indonesia, and South Africa have now been afforded a formal voice, where before they could just protest. Representing over two thirds of the world's population, the forum is imbued with significant legitimacy without the inherent unwieldiness of the UN.

Prior to the banking crisis, the G20 was an organisation of the finance ministers and central bank governors from the European Union and 19 of the world's most significant industrial and emerging economies. The group had no official powers or permanent staff, and its decisions depended on the follow-through of its members within the limitations of their respective national jurisdictions.

Yet the fact that it was heads of state and government who convened in Washington on 15 September 2008 demonstrated the forum's heightened significance. Since then, G20 summits have come to represent a pragmatic approach to finding effective solutions to key challenges, such as financial instability and the reform of financial institutions. The Group's cementing as an entity reflected a growing consensus the crisis was global and would demand a global solution.

Following initial discussions in Washington, the Pittsbugh summit of September 2009, hosted by President Barack Obama, appeared to open a new chapter in world affairs, as leaders agreed to designate the G20 as the premier forum for international economic cooperation:

'We have asked our representatives to report back at the next meeting with recommendations on how to maximize the effectiveness of our cooperation.'[2]

2. http://www.pittsburghsummit.gov/mediacenter/129639.htm

The next G20 summits will be held in Canada in June 2010 and in Korea in November 2010. Leaders have stated that they expect to meet annually thereafter, and will convene in France in 2011. These announcements reinforce the message that this is now the forum where issues of global importance are discussed.

Questions remain for the future, however. Forged in its present form through crisis, world leaders must now decide whether the G20 is destined to remain a short-term arrangement with a narrow economic focus. Alternatively, has its increased prominence instigated significant changes in global governance and can it extend its remit beyond the crisis, and beyond financial issues?

ACCA believes that the past two years have demonstrated that the problems of a globalised world are too big for individual nations to tackle alone: it is clear, for example, that the financial crisis and climate change require a multilateral effort. As governments increasingly seek support across borders, the G20 offers a prime framework for global cooperation and co-ordinated action.

However, the fact that many G20 nations were sheltered from the worst of the crisis, combined with a fundamental lack of trust between many of its members, mean that immediate, coordinated action may be hard to achieve. ACCA considers that if the forum is to build on the rapid progress it has made since its creation in 1999, its temporary, rotating secretariat must be replaced by a new, permanent secretariat to facilitate efficient decision-making and expedient action.

Further, and while G20 summits may afford access and influence to those powerful emerging economies excluded from the G8, it is unclear how the interests of smaller economies not at the table are reflected at G20 level. This must be addressed to ensure that the G20 is truly representative, and to avoid accusations that it is an exclusive, self-selected group which attempts to impose its will on the rest of the world.[3]

To be truly successful, the G20 will need to adopt robust principles for how it makes decisions on significant international issues. These principles should draw on the experience of other voluntary forums, including the Organisation of Economic Co-operation and Development (OECD) and Asia Pacific Economic Co-operation (APEC).

3. http://www.ft.com/cms/s/0/37deaeb4-dad0-11de-933d-00144feabdc0.html

The decisions it makes should be implemented by exercising collective leadership in existing multilateral institutions, such as the International Monetary Fund (IMF) or the World Trade Organisation (WTO).

The real test of the G20 will come once the after-effects of the financial crisis have fully subsided. To become a permanent, effective body, it will need to generate and sustain an ethos of collective responsibility among all its members for issues of global importance.

Recommendations

- ACCA believes that a formal agreement should recognise the cementing of the G20 as an entity. Integral to this will be the establishment of a permanent secretariat for the forum to ensure its effective operation.

- World leaders should give serious consideration to the G20's future role as a long-term feature of global governance, whose mandate extends beyond the present crisis, and beyond economic issues.

- ACCA call on G20 nations to examine ways in which the interests of smaller economies can be better represented at the forum.

- The G20 should draw upon the experience of voluntary forums such as the OECD and APEC to arrive at robust principles for decision-making on significant international issues. The decisions it makes will be best implemented through existing multilateral bodies such as the IMF and WTO.

What has the G20 achieved?

Since the collapse of Lehman Brothers in September 2008, the G20 appears to have come into its own as the primary forum for high-level financial debate. Now, three summits into the financial crisis, it is necessary to review the real extent of its achievements.

At the very least, the G20 meetings in Washington, London and Pittsburgh saw world leaders agreeing to quick, decisive and coordinated action – a consensus that in less fraught times may have taken decades to reach. Nations with different approaches to governance and economics set aside their ideological differences to work towards the common goal of far-reaching reform. Inherent in this was the recognition that this reform must be introduced across all advanced economies, and substantially converge, to be effective.

To this end, world leaders did agree to a number of concrete actions, including, but not limited to:

- making progress on financial reform
- ensuring that financial oversight is extended to all financial institutions, instruments and markets
- developing co-ordinated 'exit strategies' to ensure that public deficits do not become even larger
- beginning to clamp down on tax havens
- converging accounting standards globally
- trebling the budget of the IMF in order to provide developing countries with a safety net
- requiring banks to disclose the pay and bonuses of their highest-paid employees and to allow bonuses to be 'clawed back' if ostensibly successful decisions later go wrong
- designating the G20 the world's premier forum for economic cooperation (replacing the considerably less inclusive G8)
- requiring banks to have greater capital reserves and greater liquidity
- establishing the Financial Stability Board to monitor the implementation of the Pittsburgh Summit policies by firms.

There were, however, significant omissions: most notably, the relegation of climate change to only the penultimate paragraphs of official communiqués, and the failure to agree on a specific cap on individual bankers' pay following pressure from Britain, the US and Canada. Despite the significance of those decisions which were reached, therefore, ACCA considers the following questions still need to be answered in order to gauge the G20's net progress.

1. ARE THE AGREEMENTS ENOUGH TO SECURE AN END TO THE FINANCIAL CRISIS AND TO ENSURE THAT ANOTHER EVENT OF THIS NATURE DOES NOT HAPPEN AGAIN?

Given the huge costs involved in the financial crisis – not only low growth and deficits, but also wage depression and the human cost of unemployment – preventing future crises is obviously a key priority. There has now been significant analysis of why the crisis happened, the majority of which concludes that because of global scale and severity of the crisis, the international financial system was not functioning effectively.

There are at least two reasons for this: first, neither the national nor the international regulation and supervision of markets and institutions could keep in step with the increasing speed and complexity of financial innovation and integration over previous decades, including the rapid growth of the so-called 'shadow banking system'. Second, insufficient pressure was put on those conducting unsustainable economic policies, which led to the build-up of national and international imbalances. These two factors combined to feed the systemic instability at the root of the global crisis.

A viable international financial system needs a mechanism that can keep imbalances in check. An essential element of such a mechanism is for the IMF to be afforded a prominent role in the two areas key for stability: strong and effective surveillance in crisis prevention and responsible lending to countries in need – with appropriate limits and conditionality.

Indeed, both of these have been addressed by the G20. Not only were the resources available to the IMF tripled ($500bn was allocated to lend to struggling economies, and $250bn committed to a new 'overdraft facility'), but the IMF has also been given a more important role in preventing future economic crises through a new early warning system. And in conjunction with a new global regulator, the Financial Services Board, the IMF will also take a larger part in looking at the problems of the financial sector as a whole.

Yet while these are undoubtedly positive steps, the IMF itself warned in April 2010 that these reforms will not prevent future crisis, citing the lack of detail around the new regulatory proposals, and countries' different levels of progress on implementing reforms[4].

Alan Greenspan, Chairman of the US Federal Reserve from 1987 to 2006, has gone further, stating in April 2010 that it will never be possible to entirely prevent financial crises[5]:

'It's human nature, unless somebody can find a way to change human nature, we will have more crises and none of them will look like this because no two crises have anything in common, except human nature.'

ACCA asserts that underlying much of the credit crunch was a fundamental failure of corporate governance. While the financial institutions involved may have complied with local requirements and codes, they ignored the key ethos of regulation – that good corporate governance involves boards directing and controlling the organizations so they operate in their shareholders' interests.

Boards should be answerable to company owners, accounting properly for their stewardship and ensuring both sound internal control and organisations' ethical health. Overly-complex financial products thwarted effective supervisory control: a fundamental shortcoming neatly demonstrated by the unethical advancement, at the point of sale, of loans with little realistic chance of repayment. Ethics and attitude to risk within large complex financial institutions (LCFIs) must be addressed to prevent a further financial crisis in the short term.

ACCA believes that there should be more emphasis on the performance of corporate governance than on regulatory compliance. To help improve understanding about governance performance, we have established a set of ten principles which we consider fundamental to good corporate governance and risk management.

1. Boards, shareholders and stakeholders share a common understanding of the purpose and scope of corporate governance.

2. Boards lead by example.

3. Boards appropriately empower executive management and committees.

4. Boards ensure that their strategy actively considers both risk and reward over time.

5. Boards are balanced.

6. Executive remuneration promotes organisational performance and is transparent.

7. An organisation's risk management and control is objectively challenged, independently of line management.

8. Boards account to shareholders and, where appropriate, other stakeholders for their stewardship.

9. Shareholders and other significant stakeholders hold boards to account.

10. Corporate governance should evolve and improve over time.

4. http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article7096682.ece

5. http://news.bbc.co.uk/1/hi/8244600.stm

2. ARE THE AGREEMENTS REACHED ACTUALLY COMMITMENTS TO TAKE SIGNIFICANT ACTION OR MERELY 'PIE IN THE SKY' RHETORIC? ARE THERE GAPS BETWEEN WORDS AND ACTIONS?

Many of the pledges made at the three G20 meetings have been met, at least partially, by establishing the Financial Stability Board; taking action on 'tax havens; addressing bankers' bonuses; reforming voting powers within the IMF; and increasing the IMF's budget.

Some though, have not: most notably, the agreement to 'fight protectionism'.[6] The Global Trade Alert's report, *Broken Promises: a G20 Summit Report by Global Trade Alert*, found that:

'In each quarter of 2009, governments implemented approximately 70 initiatives that containing measures that almost certainly discriminate against foreign commercial interests. Worldwide, of the 280 state initiatives implemented since November 2008, a total of 192 have tilted the playing field towards domestic commercial interests at the expense of foreigners or discriminated between foreigners. Another 48 are suspicious and likely discriminate against at least some foreign commercial interests'.[7]

In other areas, while it must be conceded that G20 pledges have been met (at least in part) , this is largely because the summit communiqués have been characterised by vagueness and rhetoric – acknowledging the necessity of change, but stopping short of committing to the significant action required to effect it.

Be that as it may, and though some of the summits' agreements may not yet have happened or are yielding results only slowly, the very fact of agreement seems to have proved sufficient in itself to calm the markets and bolster their confidence.[8]

3. HAS THE G20 COVERED ALL BASES, OR HAS IT FAILED TO ADDRESS SOME OF THE MORE STRUCTURAL QUESTIONS?

On the final question of whether the G20 has considered all issues pertinent to the crisis, there certainly remain areas which have so far been avoided – including how to deal with large, complex financial institutions (LCFI). This is significant; if a failing LCFI threatens to jeopardise the financial system, do governments have any choice but to save it? If not, how can this be done in an orderly way without injecting public money? And if they are indeed bailed out by the taxpayer, what message is conveyed about G20 nations' commitment to instilling prudential financial management in the sector? Though it would have offered welcome clarity this time around, the US Glass-Steagall was repealed in 1999, rendering these questions once again without answer.

Of further concern is the statement issued after the April 2009 G20 meeting, calling on all G20 countries to *'progressively adopt'* the Basel II capital framework. A failure to promise substantial change to the accord has provoked criticism from those who believe it created a perverse incentive for banks to take the risks which so adversely affected the global economy. Some are calling for more fundamental change: replacement of the Basel rules with simpler but more effective stipulations on how much banks can lend relative to their capital or structural reform of the banking industry to separate traditional retail banking from riskier investment banking operations. ACCA supports the latter option.

Finally, it should be noted that while the fundamental areas above have received inadequate attention to date, other less causative issues have been prioritized. While bankers' bonuses and 'tax havens' may have caused great public outrage, they may justly be described as the scapegoats of high-level discussion, distracting attention – perhaps quite conveniently – from more pressing and complex reform.

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6. http://www.pittsburghsummit.gov/mediacenter/129639.htm

7. http://www.globaltradealert.org/gta-analysis/broken-promises-g20-summit-report-global-trade-alert

8. http://www.abc.net.au/news/stories/2009/11/10/2738104.htm

Recommendations

- Underlying the credit crisis was a fundamental failure at Board level. ACCA believes good corporate governance should headline the G20's financial agenda.
- While ACCA recognises the welcome effect on market confidence of the G20's pledges to date, we call on the Group to take tangible steps to realise these worthy commitments.
- Though mitigating public anger is understandably a political imperative for governments, policymakers must not default to appeasement measures in lieu of substantial reform.

Accounting standards

Convergence of accounting standards was under way well before the financial crisis struck; there are now over 115 countries using International Financial Reporting Standards (IFRS), with many others, including Brazil, India, South Korea, Canada, Japan, Malaysia, Mexico, Argentina and Indonesia, in the process of adoption. But for the standards to be truly global, it is clear that the world's biggest economy, the US, must be on board.

In November 2008, the US Securities and Exchange Commission (SEC) published a roadmap setting out a proposal for how US companies should move to IFRS, starting in 2014. These discussions quickly fell out of the spotlight, however, as the Madoff scandal took centre stage and the financial crisis unfolded.

In the wake of the crash, momentum for convergence has further been weakened by US concerns about how a fully-converged system would have responded to events. Of particular controversy are mark-to-market standards. Having pressured the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) into relaxing the rules, some policymakers are now reluctant to give up their newly-acquired influence for the sake of convergence.

Not only are the areas where agreement is outstanding numerous – including consolidations, securitisations, pensions, leases and revenue recognition – but the new, tighter approach to mark-to-market which the FASB is expected to formally propose in 2010 is directly at odds with the approach of the IASB, which advocates less marking-to-market. With standard setters themselves bent upon different trajectories, discussions can become only more strained.

While the crisis may have highlighted some disadvantages of common rules, it ultimately rendered unambiguous the need for a global set of standards. In November 2008, and April and September 2009, G20 leaders breathed life back into the convergence process when they called on international accounting bodies to: '...redouble their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard setting process, and complete their convergence project by June 2011'.[9]

This view has been endorsed by the Financial Crisis Advisory Group (an international group of standard-setting bodies coordinating responses to the financial crisis), which stated in a letter of January 2010[10] that:

'Although conditions may have improved somewhat in various markets around the globe, the FCAG believes it remains critically important to achieve a single set of high quality, globally converged financial reporting standards that provide consistent, unbiased, transparent and relevant information across geographical boundaries'.

This position was further endorsed by the International Federation of Accountants in their July 31 submission to the G20,[11] which stated that:

'In order to improve the ability of capital markets to work globally, allow investments to move more efficiently across borders, and to reduce risks and uncertainties in the capital markets, the G20 should encourage the early adoption and implementation of International Financial Reporting Standards (IFRS), International Standards on Auditing (ISAs) and the auditor independence requirements set out in the Code of Ethics for Professional Accountants'.

On March 16 2010, IASB Chairman Sir David Tweedie told a meeting of group of the Economic and Financial Affairs Council of the European Union (ECOFIN),[12] that the IASB and FASB are on track to meet the goal set by G20 leaders. Indeed, the Securities and Exchange Commission

9. http://www.pittsburghsummit.gov/mediacenter/129639.htm

10. http://www.iasb.org/News/Announcements+and+Speeches/FCAG+Issues+Letter+to+G-20.htm

11. http://web.ifac.org/download/IFAC_Submission_G20_Sept24_Meeting.pdf

12. http://www.iasb.org/News/Announcements+and+Speeches/ChairmanAddressesECOFIN.htm

(SEC) has reaffirmed its commitment to make a decision in 2011 to adopt converged standards by 2015 or 2016.

This falls some way short, however, of giving a firm date for IFRS adoption; according to SEC Chairman Mary L. Schapiro: '…supporting this goal is only the beginning of the discussion, not the end'.[13]

Much has happened since the inception of talks, and US policymakers have been distracted – albeit as a matter of political imperative – by broader changes in financial sector regulation. There is now even some discussion that convergence might be rejected in favour of a *'bilingual'* approach, in which IFRS and US rules would co-exist indefinitely.[14]

In interviews during January 2010's World Economic Forum in Davos (where French President Nicolas Sarkozy called for global accounting standards)[15] top executives from three of the Big Four accounting firms warned that discussions[16] over a roadmap to move US companies to international standards were reaching a crucial point.[17]

They went on to voice concerns that the process may become subject to political influence and interference and that it may get severely delayed. Indeed, Bob Moritz, US chairman of PricewaterhouseCoopers, said that the original date of 2014 for one set of rules could be pushed back to 2020: partly due to CEOs' understandable focus on moving out of the financial crisis, but partly due to the fact that many simply remain unconvinced about moving to one set of rules.

Moving to one set of high quality standards is a long-standing goal of multinational companies wishing to cut red tape. It would also increase transparency in financial reporting, and make cross-border comparison easier for international investors. Yet supporters of the process are concerned that the current roadmap sets out no firm date for implementation. The SEC's stated aim to make a final decision in 2011 on whether to mandate IFRS is too vague for many large firms.

13. http://www.sec.gov/news/press/2010/2010-27.htm

14. http://www.reuters.com/article/idUSTRE57G2V920090817

15. http://uk.reuters.com/article/idUKTRE60Q55C20100127

16. http://www.reuters.com/article/idUSTRE58G4BJ20090917

17. http://www.reuters.com/article/idUSN0319911420100204

Under the present timeframe, large, accelerated filers would have to adopt the code for the year ending 31 December 2014 – yet since this entails presenting current year results plus two years of historical, comparative data, they will actually need to start conversion to IFRS from 2012 in order to comply. Most companies will be reticent to commit funds or resources to adopting IFRS until the SEC gives them a firm date. This might present an uncomfortably short conversion period.

Added to this uncertainty is the fact that convergence appears an additional, unwelcome burden to firms who have already been severely hit by the financial crisis. According to analysts, a large business may spend $32m to switch to IFRS from US GAAP.[18]

The FASB and the IASB plan to hold monthly meetings in order to complete convergence by June 2011. But ultimately, whatever the standard-setters decide, it is SEC who will decide whether and under what conditions the US signs up for global accounting convergence.

Neither is the road to convergence clear elsewhere. While many Asian countries have either adopted or converged with IFRS, there is concern that the London-based IASB, which sets IFRS standards, is too 'Western' in its thinking, given that two-thirds of its governing committee members are from Europe and North America. According to Mohandas Pai, one of the trustees overseeing the IASB in India, emerging markets fear the creation of a single set of global accounting standards is being overly influenced by Europe and the US to the detriment of their interests.[19]

'There is a concern in emerging markets that the IASB should remain independent, with no conditions on funding from different blocs and different countries…. The issues of emerging markets should form an equal place on the table.'

18. http://www.ft.com/cms/s/0/3a997e2c-0c0d-11df-96b9-00144feabdc0.html

19. http://in.reuters.com/article/businessNews/idINIndia-47393120100401

Further, and in addition to the controversy over mark-to-market rules, the decision by the European Commission in November 2009 to defer its endorsement of IFRS 9 (the first of a three-part effort to replace the IAS 39 standard on financial instruments, which the European Commission and several European governments had pushed the IASB to revise after blaming fair value measurement for aggravating the effects of the economic crisis) because it has the potential to '...exacerbate income volatility'[20] has caused concern in the US and Asia about the impact of undue political influence in standard-setting. Two IASB members, James Leisenring and Patrick Finnegan were even moved to speak out publicly, with Finnegan stating that: 'The politicisation of accounting standards has undermined confidence in the markets and affected even the way Goldman Sachs is dealing with convergence'.[21]

It is clear that bowing to political pressure on such crucial rules risks damaging the credibility of both the standard setter and the accounting standards themselves. This can impact on investor confidence in financial reporting and the functioning of the capital market, add to investor confusion and damage the same public trust which politicians are working hard to rebuild elsewhere.

The financial crisis and the current focus on transparency provide both an incentive and a once-in-a-generation opportunity to simplify, clarify and improve accounting standards. ACCA believes that IFRS represents a single set of high-quality and internationally-accepted accounting standards, developed after due process and consultation by an international standard setter that seeks to reflect the changing distribution of world economic activity. IFRS is helping to make financial information more transparent and comparable across countries, industry sectors and companies. In doing so, it improves investor information, comparability and investment choice.

The increasing globalisation of business requires one set of reporting standards that should be principles-based rather than rules-based. IFRS represent the most viable and credible solution to this requirement. The alternative is a fragmented system of reporting that will hamper comparability and limit the financial transparency that is a necessity for international investors and other stakeholders. Failing to implement a global standard would be to step away from the globally co-ordinated response to the global financial crisis which the G20 has lead to date.

Recommendations

- ACCA calls on the G20 to maintain its leadership of the global financial agenda, working to sustain commitment to global accounting standards and avert national or regional versions of IASB-issued IFRS arising.
- ACCA recommends that the IASB now shifts from standard setting driven primarily by US convergence to an agenda directed to the maintenance and improvement of a set of standards broadly accepted around the world.
- ACCA urges the IASB to diversify their organisational structures, in order to instil confidence, among all countries and stakeholder groups involved, that their views are adequately reflected.
- The credibility of standards and standard-setters themselves are integral to market confidence. In the interests of speedy economic recovery, ACCA firmly believes that international accounting standards should be set by an independent board which is accountable but protected from undue political pressure.
- ACCA urges the US to adopt IFRS starting with a decision from SEC before the end of 2011.

20. http://ec.europa.eu/internal_market/accounting/docs/ias/20091104_iasb_ec_IAS39Rev_en.pdf

21. http://www.webcpa.com/news/IASB-Leisenring-Pay-No-Attention-IFRS-9-52702-1.html

Financial sector reform

Although its role in the financial crisis has been widely acknowledged, global financial regulation has changed little since the tumult began in 2008. This is unlikely to remain the case for much longer, however: 2010 promises wholesale reform of the international economic system, with both US and EU authorities expected to bring forward new regulations to which world banks and markets must adhere.

Yet ACCA urges global authorities not to rush to introduce heavy-handed regulation. We call instead for joined-up action between governments, regulators, companies and other stakeholders to secure lasting solutions to the current problems, and to anticipate future threats to the integrity of the financial sector and broader global economy.

It is vital in these efforts that the apparent failure of 'light-touch' regulation does not become synonymous with the victory of rules over principles. Procedure alone is not enough; all parties must understand and respect the purpose of regulation, and effective enforcement must take place. And for this to occur, those bodies being regulated – banks and other businesses – must play a crucial part in establishing a workable system.

ACCA has been active in providing advice to policy makers in this area. Our papers of June[22] and November[23] 2009 on *The Future of Financial Regulation* assimilated comments from chief financial officers, auditors and financial regulators from all the major capital markets, to arrive at a set of principles which we consider a blueprint for viable regulation.

Competition
Competition is the key to effective regulation and governments must put the promotion of competition at the heart of their approach. Policy must be geared to preventing the creation of institutions which are 'too big to fail', which are anathema to effective regulation. Competition of ideas also benefits regulators; the sharing of knowledge and best practice between countries, while welcome, moves towards uniformity should always be mindful of local market conditions.

Systemic approach
The regulatory system must take wider macro-economic factors into account, to complement more effective monitoring of capital and leverage ratios of individual institutions. All relevant entities should be brought into the regulatory net. It is also crucial that regulators have sufficient staff and expertise to keep in step with the rapid pace at which their industries evolve.

Governance
Financial institutions, encouraged by regulators, should adopt ethics-based corporate cultures on issues like remuneration, to ensure that they act in the long-term interests of their stakeholders. The weaknesses in corporate governance and risk management practices highlighted by the crisis must be addressed; better ethics training for directors and an upgrading of Boards' risk functions are imperatives. There should be a specific review of whether the presence of non-executive directors on a company board remains an effective means of exerting supervision over the executive in large and complex institutions.

Accountability
The accountancy profession must consider ways of making the financial reporting and audit more useful to shareholders. Enhancing the quality of reporting on risk will be key here. Accountants' work must continue to be geared principally towards shareholders rather than regulators, in spite of potential new demands from the latter.

22. http://www.accaglobal.com/pubs/general/activities/library/governance/cg_pubs/tech-tp-ffr.pdf

23. http://www.accaglobal.com/pubs/general/activities/library/governance/cg_pubs/tech-tp-ffr2.pdf

As consultation continues at national and global levels on the future of financial sector, it is too early yet to give a definitive view of the regulatory landscape; the debate will go on well into 2010. What is clear is that governments, regulators and businesses must engage in a commonsense dialogue if global financial regulation is to head in the right direction in 2010.

ACCA now urges the G20 to turn its stated commitment to integrity in financial institutions into reality, through encouraging businesses and regulators to agree on ways to instill and implement ethical business codes in financial and corporate sectors alike. Achieving buy-in from all sides is the key; the risk of this not being achieved is that governments lose patience and impose a framework of strict and detailed regulations, rather jeopardising future prospects for a sustainable business environment.

We welcome the fact that many of our reports' recommendations have been followed up – most notably, the welcome maintenance of national supervision as the bedrock of regulation. We note also that speculation over the past year about the introduction of some form of 'super-regulator' has remained, mercifully, just that. Yet on the same vein of maintaining the connection between regulator and regulated, we have concerns about the proposed pan-EU regulatory architecture; co-ordination and best practice sharing is good, but the inevitable remoteness is not.

ACCA calls on the G20 to address the continued lack of action on so-called 'too big to fail' institutions – the existence of which is an anathema to good regulation – as a matter of urgency. Extra capital requirements and more intensive supervision will go so far, but it is disappointing that the re-introduction of a Glass-Steagall-type division of investment and retail banking activities are not being taken more seriously. We see also a place for a US-style Consumer Financial Protection Agency in Europe.

The G20 economies appeared to move closer to devising a system of global financial regulation at the Pittsburgh summit of September 2009, agreeing to coordinate on critical issues such as how much capital banks should hold, how much they should pay executives and what accounting standards they should use. Yet given nations will not face any penalties if they break their word, those agreements were all too easy to endorse.

To ensure that real change happens, governments worldwide will need to remain fully committed to achieving collective regulation, and to focus on supporting other governments in making changes, rather than their own political priorities.

This danger was emphasized by Dominique Strauss-Kahn, managing director of the IMF, who said in March 2010 that although global leaders had worked well together when the threat from the crisis loomed large, co-operation has diminished since the economic recovery began: 'One of the lessons of the crisis is that facing global challenges we need to have global answers.... This lesson is about to be lost.'[24] He went on to say that individual countries are taking steps to bring forward new regulations and supervisory bodies: 'The only problem is, they don't fit together.'

It is important that leaders go to the next G20 meeting in Canada in June broadly consensual as to what remains to be done in this area. From the standpoint of the market and banks themselves, clarity is required as soon as possible in the interests of restoring confidence. But the fundamental rethinking triggered by the economic and financial crisis provides the international community with an unprecedented opportunity for reform – reform that can secure stable growth, job creation and sustainable development. The present momentum must be maintained, in spite of signs of an upturn.

24. http://www.reuters.com/article/idUSTRE62T2J320100330

Recommendations

- ACCA asserts that the failure of regulation manifest in the global financial crisis will not be remedied by a heavy-handed approach. The buy-in of both sides is key; leaders must work with regulators and regulated alike to devise a principles-based, effectively enforced regulatory framework to secure the future integrity of the global economy.

- ACCA urges the G20 to turn its stated pledge to see commitment to integrity in financial institutions turn into reality, by encouraging moves to instill ethical business codes and better risk management functions in the financial and corporate sectors. The capacity of non-executive directors to exercise meaningful oversight of the executive within large complex banks requires particular attention.

- The protection of consumers' and shareholders' interests must lie at the heart of any future regulatory framework for banks. To this end, ACCA views the promotion of competition within the sector as a matter of priority, alongside the establishment in Europe of a US-style Consumer Financial Protection Agency. We urge the G20 to seriously consider the reintroduction of a Glass–Steagall-type measure to separate retail from investment banking.

- While international co-ordination is to be welcomed, ACCA considers that the introduction of any 'super-regulator' would engender a sense of remoteness and, consequently, a reluctance to comply. National supervision must remain the bedrock of regulation.

Stimulus packages

At the November 2008 Summit in Washington, the G20 agreed to: '…use fiscal measures to stimulate domestic demand to rapid effect, as appropriate, while maintaining a policy framework conducive to fiscal sustainability'.

The efficacy of fiscal stimulus measures is a long-standing debate among economists. John Maynard Keynes advocated government intervention in the wake of the last comparably severe depression of the 1930s: a position supported by many contemporary economists. It is believed that increasing government spending and lowering taxes (variously combined) will stimulate demand in the economy, leading to growth and decreased unemployment. In the UK, for example, the Treasury estimates[25] that a £1bn injection will create a £1.4bn increase in activity, which in turn will improve government finances by £1.05bn.

In the wake of the global financial crisis, most of the G20 economies introduced some form of fiscal stimulus. The Brookings Institution[26] stated in April 2010 that:

'The total amount of stimulus in the G20 amounts to about $692 billion for 2009, which is about 1.4% of their combined GDP and a little over 1.1% of global GDP. This is a significant amount of stimulus, but appears to fall short of what is needed to tackle a crisis of the proportion we are currently in. The IMF, for instance, has called for stimulus equal to 2% of global GDP.'

Many economists disagree that stimulus measures work in practice, however: notably, the few hundred who signed an objection to the policy sponsored by the Cato Institute.[27] Continuing to spend can be counter-productive, it is argued; the government must borrow money to give it back out, but if the markets think public finances are out of control, the interest rates they charge become increasingly high. This then impacts upon interest rates for personal borrowers, decreasing demand in the economy, and negating any benefits the initial outgoing might have had.

25. http://www.guardian.co.uk/commentisfree/2010/mar/19/recession-public-deficit-investment

26. http://www.brookings.edu/articles/2009/03_g20_stimulus_prasad.aspx

27. http://www.cato.org/special/stimulus09/cato_stimulus.pdf

Critics cite also the phenomenon of 'crowding out'; each dollar, euro or Yuan spent by the government, they warn, is one that is not spent by the private sector, and for every stimulus-born job, one is lost due to a decline in private consumption.

World governments, however, have not yet stopped spending. The 'Asian giants' judge it is too early to cut back, with Japanese Finance Minister Naoto Kan telling Chinese counterparts in April 2010 that his country cannot yet embark on an exit strategy from the stimulus measures underway.[28] The German stimulus has been credited by the IMF[29] with minimising job losses, and US president Barack Obama championed the effects of his own measures in April 2010.[30] The IMF, for its part, has warned that for governments to withdraw support now could result in a double-dip recession, and has called for stimulus packages to be left in place well into 2010.[31]

The firm, coordinated international response to the financial crisis, led by the G20 and with fiscal stimulus at its heart, has helped to restore a degree of confidence. But ACCA warns that this must not lead to complacency, which would put the recovery at risk. As Dominique Strauss-Kahn stated on 29 October 2009:

'There are some encouraging figures, a few months ago from European countries and yesterday from the US and that's all good news. Nevertheless it does not mean the crisis is over. The crisis will not be over until unemployment begins to decrease and that will take many months…If we want to avoid, which I think we will avoid, the risk of a double-dip, it's absolutely too early to withdraw the different stimulus which have been put in place'.[32]

28. http://www.moneycontrol.com/news/world-news/japan%60s-kan-too-soon-for-exitstimulus-steps_449882.html

29. http://www.imf.org/external/pubs/ft/survey/so/2010/CAR033010A.htm

30. http://www.washingtonpost.com/wp-dyn/content/article/2010/04/02/AR2010040202343.html

31. http://www.guardian.co.uk/business/2010/feb/23/imf-backs-cautious-approach-to-spending

32. http://www.reuters.com/article/idUSTRE59T1GN20091030

The concern voiced by European Central Bank (ECB) governor Jean-Claude Trichet that banks may become to reliant on the central bank's cheap short-term money loans, seems to suggest that he favours a withdrawal of the measures the Bank has established over the past two years,[33] in order to wean the financial sector off its unprecedented external support.[34] The ECB's exit strategy can realistically only be gradual, however; the recession still mars member states such as Spain, where unemployment stands at around 20%.

In many economies, demand is being sustained in large part by exceptional policy measures. ACCA believes that a credible, medium-term plan to cut deficits is needed to tackle shortfalls in public finances that have resulted from reduced tax yields and vital action taken by governments to prevent a global depression.

However, we caution against jeopardising the recovery by suddenly cutting off the policies that helped avert a much worse crisis and stabilise the global economy. While recent indications of economic expansion give cause for cautious optimism, it is too soon to abandon stimulus programmes, especially without a complete exit strategy in place; the finance ministers and central bank governors of most G20 countries will want to wait for clear signs that private demand is replacing government stimulus. Indeed, Australia is the only G20 member that has raised interest rates this year, and the only country whose central bank has increased borrowing costs more than once.

With all G20 countries but Britain and Argentina planning to continue their fiscal support beyond 2010, it appears, for the time being at least, near consensus exists that it is too early to tighten the purse strings. Until such time as national and global economic conditions allow its members to withdraw their stimulus measures, the G20 must make best use of available information to support them in their recoveries.

Recommendations

- Complacency risks plunging the global economy back into danger. ACCA recommends that while recent indications of economic expansion give cause for cautious optimism, it is too soon to abandon stimulus programmes. Before any withdrawal of stimulus, there must be a complete exit strategy in place.

- ACCA notes that current demand in many major economies is sustained by exceptional policy measures. While this unprecedented intervention averted a much worse crisis, governments must now devise credible, medium-term plans to address the shortfalls in public finances arising from reduced tax yields and their necessary erstwhile support.

- ACCA believes G20 leaders must make best use of the information available to them to assess the current economic conditions and carefully consider the need for further global fiscal stimulus.

33. http://www.g7.utoronto.ca/g20/g20plans/g20plans100213.pdf

34. http://www.bloomberg.com/apps/news?pid=20601100&sid=aGXHrJmpw_GI

Strong, sustainable and balanced growth

Supporting growth around the world in the wake of the financial crisis is one of the key elements of the G20's mandate,[35] which has seen growth plummet and social indicators such as unemployment rise, rarely has this been more pertinent. While emerging markets in Asia and Latin America have displayed relative resilience to the crisis,[36] modest growth and persistent high unemployment rates in the US, EU and Japan mean these developed economies are taking longer to emerge from the recession.

A two-day gathering in April 2010, Employment Ministers meeting in Washington stressed the need for governments to prioritise job creation and preservation in a five-point plan, warning: '...as some countries begin to experience economic recovery, continued attention must be paid to job creation and job preservation'.[37]

This follows from the April 2009 communiqué in which the G20 made a common commitment, reiterated in Pittsburgh, to seek: '...strong, sustained and balanced growth in the 21st century'.[38]

G20 leaders also agreed, in spite of reluctance to incorporate climate change commitments that might hinder the UN's climate change negotiations scheduled for three months later, that:

'As leaders of the world's major economies, we are working for a resilient, sustainable, and green recovery. We underscore anew our resolve to take strong action to address the threat of dangerous climate change'.[39]

French President Nicolas Sarkozy has since made moves in this direction, stating in March 2010 that he will push to enforce taxation on financial transactions to raise money to help developing countries fight climate change when France takes the chair of the G20 in 2011.[40]

However, environmental groups maintain that the $1.1trn stimulus package agreed in 2009 will serve only to reinforce the carbon-dependence of global economies, and that climate change discussion demands significantly more attention than two vague paragraphs at the end of the G20 communiqué.[41]

Those commitments which have been made, moreover – for example, the agreement to sign up to the *Global Green New Deal* proposed by the UN Environment Programme[42] – have not always come to fruition. The Green New Deal recommended that countries spend 1% of GDP on green initiatives. But many G20 members have failed to meet to this target: the US spent just 0.7% of GDP on green initiatives and the EU even less at 0.2%. China and South Korea, in contrast, spent 3% of their GDP on green measures.[43]

This lack of progress was emphasised in correspondence[44] from G20 steering group leaders[45] to fellow G20 members in March 2010, which urged governments of these nations to recommit to and deliver on reforms to which they have already agreed. The letter, signed by US President Barack Obama, Canadian Prime Minister Stephen Harper, French President Nicolas Sarkozy, South Korean President Lee Myung-bak and British Prime Minister Gordon Brown, stated that:

'Our first objective is the return to sustained growth and job creation. To fulfill this objective, we need to design cooperative strategies and work together to ensure that our fiscal, monetary, foreign exchange, trade and structural policies are collectively consistent with strong, sustainable and balanced growth.'

35. http://www.g20.org/about_what_is_g20.aspx

36. http://www.guardian.co.uk/business/2009/nov/10/hsbcholdings-recession

37. http://www.g20.org/

38. http://www.pittsburghsummit.gov/mediacenter/129639.htm

39. Ibid

40. http://www.reuters.com/article/idUSTRE62A2R120100311

41. http://www.guardian.co.uk/environment/2009/apr/03/g20-climate-change-stimulus-package

42. http://www.unep.org/greeneconomy/GlobalGreenNewDeal/tabid/1371/language/en-US/Default.aspx

43. http://www.scidev.net/en/opinions/g20-must-boost-green-spending.html

44. http://www.reuters.com/article/idUSTOE62T03V20100330

45. The steering group consists of future and past hosts of G20 summits which bring together the major industrialised countries and emerging powers such as China, India, Brazil and Indonesia.

At the moment, governments around the world are understandably focusing on their national economic recovery and job creation. ACCA believes, however, that world leaders should view the financial crisis and climate change as intertwined challenges. The downturn provides both an opportunity and an incentive to invest in energy-efficient technologies and renewable energy, creating green jobs and low-carbon growth, and laying the foundations of long-term, sustainable economic prosperity. While we concede that the short-term goals of recovery and financial regulation are political imperatives, ACCA calls on the G20 to embed sustainability and climate change mitigation within its agenda, and make clearer commitments in these areas.

One means by which the G20 could begin to address these challenges is through reforming business reporting rules to cement sustainability at the centre of business strategy, and promote the sustainable economic behaviour of company Boards. The Prince of Wales' Accounting for Sustainability initiative (A4S), along with a range of other influential bodies such as the Global Reporting Initiative (GRI) and the International Accounting Standards Board (IASB), has called for a new corporate reporting body, an International Integrated Reporting Committee (IIRC), to be established which would develop rules that would require firms to provide greater disclosure on environmental, social and governance issues integrated into the annual report and accounts package. By focusing on long-term sustainable business value as the key reporting objective, this proposal would not only help to reduce the risk of future financial crises, but also provide firms with a clearer incentive to reduce their environmental impact, and ACCA fully supports such a move.

No single country or group of countries can succeed on their own; steps towards sustainable growth must be delivered globally. But the financial crisis offers the opportunity for the G20 to take the lead and set financial and economic decision-making in on a new and more sustainable track.

Recommendations

- Although much of the focus is on the short-term recovery and improving the regulation of the financial sector, ACCA believes that sustainability and tackling climate change should be embedded in the G20 agenda and that the group should make clearer commitments in these areas.
- The G20 should consider addressing these issues through plans to reform business reporting rules, to require greater disclosure of firms' environmental, social and governance practices.
- The G20 should champion the opportunity and an incentive provided by the financial crisis for global investment in energy-efficient technologies and renewable energy, creating green jobs and low-carbon growth, and laying the foundations of long-term, sustainable economic prosperity.

Conclusion

Neither governments, nor their citizens, nor the global business community could countenance a repetition of the ruinous cascade of events which followed Lehman Brothers' collapse in September 2008. Now, with global economic recovery, albeit tentatively, underway, the wholesale reform required to secure future financial stability is a matter of political and social imperative.

Yet if one positive is to be drawn from the crisis, it is the cementing as an entity of the G20, not only as the premier forum for economic cooperation, but also with the potential to take the lead in broader global governance. This leadership is already manifest, and ACCA welcomes the G20's demonstrable commitment to global financial reform to date.

There remains much to be done, however: not least within the forum itself, which lacks the permanence and infrastructure effective decision-making requires. Reaching international consensus on common rules and standards will prove only more elusive as recovery takes root, meaning the G20 must redouble its efforts to facilitate its members' timely agreement to a robust and credible global regulatory framework. And there is a way to go yet in instilling the ethos of good governance in financial institutions which will mitigate risk-taking behaviour.

ACCA believes that the financial crisis offers both an incentive and a once-in-a-generation opportunity to build a sustainable global economy. We urge the G20 to continue its momentum towards this, in 2010 and beyond.

The ACCA qualification is designed to provide the accounting knowledge, skills and professional values which will deliver finance professionals who are proficient in areas such as ethics and who have the high-quality, world-class skills required by employers and governments around the world. ACCA will continue to work with G20 governments to support the recovery from the financial crisis and to assist in building a better system for the future.

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