



The Institute of  
Chartered Accountants  
of Pakistan

**PRESIDENT**

September 11, 2009

## **President's Communication 10**

Dear Member,

### **1. ICAP CONFERENCE 2009 – *Financial Meltdown- Crisis of Governance?***

On August 19 and 20 we successfully held ICAP Conference 2009 on the theme *Financial Meltdown – Crisis of Governance?* as part of the SAFA Silver Jubilee celebrations. The Conference was attended by more than 600 participants. The presence of Finance Minister Mr. Shaukat Tarin at the Inaugural session and Chairman SECP and Governor State Bank of Pakistan as session chairmen at the technical sessions amplified the importance of this event. The Conference gave attendees a unique opportunity to network and exchange ideas. Foreign delegates from SAARC region also attended the closing session of the Conference to mark the Silver Jubilee of SAFA. We have placed presentations and relevant material on the ICAP website on important topics covered in the conference, and I am sure you will find them useful.

### **2. IFAC Recommendations to G-20 on Global Financial Crisis**

Recently, the International Federation of Accountants (IFAC) has developed a series of recommendations, which have been sent for the consideration of G20 meeting being held on September 24-25, 2009. These recommendations, which have been sent by President IFAC Mr. Robert Bunting through his letter dated August 20, 2009, reflect the outcomes of the IFAC G20 Accountancy Summit, a workshop of nearly 40 accountancy institutions and organizational partners from seventeen G20 countries, which was held on July 23-24, 2009 in London.

As these recommendations are a summarized response of the accountancy profession to address the key issues and factors that caused the current economic crisis and to mitigate systemic risk to global financial system, I thought it important share them with you.

The eight recommendations to reduce the risk of financial crisis are:

1. The G20 should encourage all governments to adopt and implement common global standards not only for accounting, but also for auditing and for auditor independence.



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2. We acknowledge progress made by the International Accounting Standards Committee Foundation (IASCF) toward reforming the governance structure of the International Accounting Standards Board (IASB); however, the G20 should take further steps to ensure that the IASB can function independently without inappropriate political interference.
3. The G20 should support the adoption and implementation of International Public Sector Accounting Standards (IPSASs) in all nations.
4. The G20 should call for measures to enhance corporate governance in their respective countries and in the global marketplace.
5. The G20 should explicitly address the needs and the realities of small and medium-sized enterprises in the formulation and implementation of policies and reforms.
6. The G20 should commit to long-term strengthening of the accountancy profession in developing and emerging countries.
7. The G20 should facilitate a debate with prudential regulators and a broad group of users of financial statements to consider the implications for financial reporting of making adjustments to standards to meet the needs of prudential monitoring and supervision.
8. The G20 should support the development of new tools and metrics to achieve global sustainability.

The letter sent to G20 containing full set of recommendations is also attached. The above recommendations build on the previous submissions that IFAC provided to the G20 in March 2009. Copies of earlier letters written to three working groups of G20 are available on <http://www.ifac.org/financial-crisis/>

I trust, you will find this information useful.

Regards

Asad Ali Shah



## International Federation of Accountants

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July 31, 2009

The Group of Twenty (G-20)  
c/o The G20 Secretariat  
[G20uk@hm-treasury.x.gsi.gov.uk](mailto:G20uk@hm-treasury.x.gsi.gov.uk)

### **Re: Recommendations for the G20 Nations – Meeting of September 24 – 25, 2009**

Dear G20 Secretariat,

The International Federation of Accountants (IFAC) is pleased to provide, on behalf of the global accountancy profession, a series of recommendations for consideration by the G20 at its meeting on September 24 – 25, 2009. These recommendations build on the previous submission that IFAC provided to the G20 in March 2009. We stress their importance in providing long-term solutions for the financial crisis and in maintaining and promoting integration of the global economy.

The recommendations set forth in this submission reflect the outcomes of the *IFAC G20 Accountancy Summit*, a workshop of nearly 40 accountancy institutions and organizational partners from seventeen G20 countries, which was held on July 23 – 24, 2009.

We believe that the accountancy profession has an essential role to play in resolving the current crisis and in building a reformed international financial system. Therefore, IFAC supports the G20 and encourages the G20 governments to act quickly in following through on their commitments, as specified in the April 2 communiqué and the final reports of the four working groups.

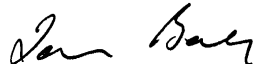
IFAC is the global organization for the accountancy profession. IFAC is comprised of 157 members and associates in 122 countries and jurisdictions.<sup>1</sup> Through them, we represent approximately 2.5 million accountants in public practice, education, government service, industry, and commerce. IFAC, through its independent standard-setting boards, and in conjunction with the international regulatory community, sets international auditing and assurance, ethics, education, and public sector accounting standards. IFAC also issues guidance to encourage high-quality performance by professional accountants in business.

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<sup>1</sup> For a list of professional accountancy institutes from G20 nations with membership in IFAC please refer to *Appendix A* of this letter.

Please advise us should you require further information on any of the recommendations made in this document. We would welcome the opportunity to contribute to the activity that will be needed, either ahead of or subsequent to the September 24 – 25 G20 meeting, to bring about the required changes in the international financial system.

Sincerely,

A handwritten signature in black ink, appearing to read "Ian Ball". The signature is written in a cursive, flowing style.

Ian Ball  
Chief Executive Officer

## **RECOMMENDATIONS FOR THE G20 NATIONS**

### **Meeting of September 24 – 25, 2009, Pittsburgh, PA**

*The following recommendations represent the views of the International Federation of Accountants (IFAC) and reflect those of the accountancy organizations from the G20 countries in attendance at the IFAC G20 Accountancy Summit. They serve as a follow-up to our previous submission to the G20 Working Groups in March 2009 and are in accordance with IFAC's mission to contribute to the development of strong international economies by promoting adherence to high quality professional standards.*

*We encourage the G20 to continue its essential work and follow through quickly on the commitments made in its communiqué of April 2 and in the final reports of the four Working Groups. We urge the G20 groups to maintain the momentum and urgency of their work notwithstanding recent indications of possible economic recovery.*

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#### **1. The G20 should encourage all governments to adopt and implement common global standards not only for accounting, but also for auditing and for auditor independence.**

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. This will assist the G20's goal of strengthening transparency and accountability in the context of financial and capital markets and creating a level playing field in the interpretation and exchange of financial information. Consistent financial information around the world can do much to facilitate cross-border activity and economic and financial stability.

The successful adoption and implementation of these standards in each country will only be realized through several interrelated steps, each requiring the G20 Nations to work individually and collectively with institutional partners and regulators at national and international levels. These steps are:

- a) The adoption of such standards without alteration at the national level to ensure their consistent, universal application;
- b) The development of rigorous processes to ensure that standards are translated in a manner which enables consistent application across languages.
- c) Identify and provide support to organizations in order to develop and deliver high-quality implementation guidance;<sup>1</sup>

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<sup>1</sup> The accounting profession is willing to assist the G20 in identifying qualified organizations for the purposes specified in points c) and d).

- d) Identify and provide support to organizations in order to develop and deliver high-quality education to individuals who will be responsible for applying or monitoring these standards; and
- e) Develop national roadmaps for adoption and implementation that take into account the above factors (a – d).

The G20's support of IFRS and ISAs would be consistent with that of other international organizations with mandates in the global financial sector. These include the Financial Stability Board (FSB), which lists IFRS and ISAs in the FSB's Compendium of twelve key standards; the International Organization for Security Exchange Commissions (IOSCO), which has recently endorsed the clarified ISAs; and the European Commission, which has processes in place that propose the adoption of ISAs as an integral component of the 8<sup>th</sup> Council Directive on Company Law.

**2. We acknowledge progress made by the International Accounting Standards Committee Foundation (IASCF) toward reforming the governance structure of the International Accounting Standards Board (IASB); however, the G20 should take further steps to ensure that the IASB can function independently without inappropriate political interference.**

The G20 should ensure that the IASC Foundation completes its review of the IASB and establishes plans for high-quality governance structures and procedures that will provide the necessary confidence that the IASB will be able to engage in its standard setting processes independently, and in a manner that ensures its legitimacy. We recommend the following measures to ensure that the IASB attains this level of confidence:

- a) The G20 should call for reconsideration of the composition of the Monitoring Board to ensure that a broad range of relevant groups are represented. In order to achieve this, the Monitoring Board may require expanded membership.
- b) The G20 should emphasize that the IASB's procedures for standard-setting should allow for ultimate political accountability through the Monitoring Board, and with regulatory input into standards direction, but without political interference in determining the content of the standards themselves.
- c) The G20 should ensure that the funding of the IASB meets criteria of adequacy, stability and independence.

We believe that the IASB's governance framework should be designed to ensure its legitimacy by being built upon principles of public oversight, accountability, independence, high performance (encompassing technical competence, responsiveness and efficiency), and transparency – all of which should operate and be seen to operate in the public interest.

### **3. The G20 should support the adoption and implementation of International Public Sector Accounting Standards (IPSASs) in all nations.**

The G20 should take action to greatly improve the transparency and accountability of public sector finance as an integral objective for crisis remediation and as a necessity in the post-crisis landscape. The financial crisis has forced many governments to assume an intervening, if not decisive, role in financial recovery through unprecedented takeovers, lending, guarantees and bailouts of major market institutions, banks and companies. These actions are likely to have long-term economic implications and result in new liabilities and contingent liabilities being assumed by governments, which will demand improved accountability for governmental financial management in order to restore public confidence in governmental fiscal stability. In addition to their obligations to taxpayers and citizens, governments must also consider the role transparency plays, through high-quality financial reporting, in evaluating investments in government debt and in generating investor confidence.

IPSASs are designed to apply to the general-purpose financial statements of all public sector entities. They are developed primarily for an accruals-based accounting context and enable assessment of the impact of fiscal and monetary policy decisions; assist external reporting by governments to electorates, taxpayers and investors; and assist in internal management decisions in resource allocation (planning and budgeting), monitoring, and accountability.

The adoption and implementation of IPSASs in each country will require several steps that will likely be universal for all national governments:

- a) The adoption of IPSASs without alteration at the national level to ensure their consistent, universal application and to enable reliable cross-national financial comparisons;
- b) The development of rigorous processes to ensure that IPSASs are translated in a manner which enables consistent application across languages.
- c) Identify and provide support to organizations in order to develop and deliver high-quality implementation guidance;<sup>2</sup>
- d) Develop national roadmaps for adoption and implementation of IPSASs that take into account the above factors (a – c).

A corollary to action on the national adoption of IPSASs is the application of IPSASs at the state, regional and local government levels so that national governments can more easily integrate policy and fiscal management.

The IMF and World Bank have a history of supporting the development of IPSASs and we encourage the G20 to call on those organizations to apply greater support to encourage governments around the world to adopt IPSASs. We encourage the IMF, World Bank and

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<sup>2</sup> The accounting profession is willing to assist the G20 in identifying qualified organizations for the purposes specified in point c.

International Public Sector Accounting Standards Board (IPSASB) to continue to work in close collaboration in promoting high quality financial reporting by governments.

We believe that the G20 is in a unique position to address the challenges of public finance and ensure the accountability of governments for their financial impact on this and future generations. The adoption of IPSASs would represent a significant step forward in achieving the financial transparency of national governments worldwide.

#### **4. The G20 should call for measures to enhance corporate governance in their respective countries and in the global marketplace.**

The G20 should call for measures to enhance the role of corporate governance as a matter of urgency. While the following recommendations should apply to all commercial enterprises, we stress the immediacy of their implementation in publically listed companies. The following measures are, to a large extent, internationally recognized and we urge the G20 to promote strongly and without delay the following actions in all countries:

- a) Adopt and implement (in letter and spirit) the Organization for Economic Cooperation and Development's (OECD) *Principles of Corporate Governance* as the standard framework for corporate governance, and urge its adoption in all nations and jurisdictions. At the same time, the G20 should request that the OECD reconsider what constitutes appropriate governance in relation to the design of remuneration systems in light of current events. Systems of remuneration should provide incentives consistent with long-term growth and corporate performance.
- b) Set out competency requirements for those preparing financial statements. In recognition of our concern over the quality of financial reporting by governments (see recommendation #3) we believe that these competency requirements should apply equally to those preparing listed company and governmental financial reports.
- c) Establish fundamental ethical principles applicable to boards of directors. These principles should include integrity, objectivity, competence and due care, confidentiality, and professional behavior.
- d) Stipulate that the role of an effective director, and particularly a non-executive director, requires an investment of time commensurate with the size and complexity of the company. The role of a director is critical to sound corporate decision making and oversight of management and requires dedication, competence, professionalism and time.
- e) Support an increased role for audit and compensation committees in executing their responsibilities by ensuring that they have appropriate expertise, strengthening their authority, increasing their responsibilities, and improving their monitoring role. In particular, financial expertise among members of audit committees is essential.
- f) Mandate that Chief Executive Officers and Chief Financial Officers/Finance Directors act as formal signatories to interim and annual financial statements.

**5. The G20 should explicitly address the needs and the realities of small and medium-sized enterprises in the formulation and implementation of policies and reforms.**

The G20 should acknowledge that small and medium enterprises (SMEs) are the engine of the global economy. It is important to stress that this sector has been hit especially hard by the credit crisis and, moreover, in most countries and industries, it is SMEs that will be the primary source of new jobs, innovation and growth.

Regulation or re-regulation in financial policies should not place unreasonable obstacles in the path of small and medium enterprises. Those establishing the regulations must explicitly take into account the costs and complexities that will impose burdens on and threaten the sustainability of the small business sector.

In this respect, the G20 should acknowledge that “one size does not fit all” in respect to all regulatory reforms designed to alter financial reporting requirements for SMEs. Because financial reporting for SMEs is important for the economy, there is a need for standardization of reporting with respect to SMEs and micro entities.

**6. The G20 should commit to the long-term strengthening of the accountancy profession in developing and emerging countries.**

The effective implementation of global standards for financial reporting, auditing, ethics and public sector accounting requires a high quality, well trained accountancy profession in all countries. The G20 should support the establishment of a global partnership between IFAC, the World Bank and the G20 nations with the primary objective of strengthening the accountancy profession in developing and emerging countries. This overall strategic initiative should include:

- a) Building sustainable capacity in the accountancy profession on a national and regional level;
- b) Assisting countries in achieving full compliance with standards;
- c) Supporting establishment and/or strengthening of an enabling legal environment;
- d) Strengthening monitoring and enforcement mechanisms;
- e) Greatly improving access to international standards;
- f) Supporting the provision of high quality training and curricula;
- g) Improving the availability of implementation guidance and practice manuals; and
- h) Enhancing training in ethics.

Some progress in strengthening the accountancy profession has been made through the IFAC Member Body Compliance Program<sup>3</sup>, the Developing Nations Committee,<sup>4</sup> and World Bank,

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<sup>3</sup> The IFAC Board established the Member Body Compliance Program as a means to evaluate the quality of members' and associates' endeavors to meet IFAC membership requirements. The program's primary objective is one of encouragement and improvement. As one of IFAC's public interest activities, the Compliance Program is overseen by the Public Interest Oversight Board.

regional and bilateral donors' programs and developed professional bodies' support. However, the present support is often sporadic, short term and fragmented, and substantially more needs to be done. Therefore, there is an urgent need to establish a strong global partnership with appropriate resourcing to build sustainable capacity in the accountancy profession in developing and emerging countries. Furthermore, G20 governments should explicitly commit to supporting the long-term development of the accountancy profession in their own countries as appropriate.

**7. The G20 should facilitate a debate with prudential regulators and a broad group of users of financial statements to consider the implications for financial reporting of making adjustments to standards to meet the needs of prudential monitoring and supervision.**

The G20 should facilitate collaboration in resolving critical issues regarding financial reporting and prudential reporting, as they have different underlying objectives. The objective of financial reporting is to communicate unbiased, transparent information on business performance to investors. The objective of prudential reporting is to monitor and maintain financial stability.

The importance of a single common set of accounting standards is the keystone of our recommendations in this paper. We believe that there is a widespread acknowledgement of the purpose of general purpose financial statements which is understood by investors and users around the world.

The comparability of financial statements risks serious erosion if national or regional prudential regulators impose specific requirements on individual financial institutions – unless the impact of those prudential rules is transparent from a reading of the financial statements.

We acknowledge the role of prudential regulators in maintaining sound financial markets. We believe they should carry out their duties without affecting the financial reporting of institutions using IFRS.

**8. The G20 should support the development of new tools and metrics to achieve global sustainability.**

The causes of social responsibility, environmental preservation and the overall sustainability of global civilization are critical not only for today, but also for our children and grandchildren. The G20 should support global sustainability initiatives in the following ways:

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<sup>4</sup> IFAC's Developing Nations Committee supports the development of the accountancy profession in all regions of the world. The committee represents the interests of the developing profession, provides guidance and other resources to meet their needs, and seeks development assistance from the donor community for the strengthening of the accountancy profession in developing nations.

- a) Support and encourage the development of non-financial reporting. Decision-makers as well as investors, analysts, and regulators are increasingly seeking non-financial information to support financial statements.
- b) Consider the benefits of linking climate change reporting (e.g., tracking greenhouse gas emissions) into existing mainstream reporting and financial performance.
- c) Encourage the development and recognition of financial and non-financial reporting practices that facilitate corporate social responsibility.
- d) Encourage further innovation in non-financial reporting practices that facilitate accountability and measurement for the United Nations Millennium Development Goals.
- e) Support the greater social and economic responsibility of capital maintenance in the private and public sectors – we, as a society, are less and less sustaining ourselves from the interest of our capital; rather we are consuming the very capital that will be required of future generations.

The accountancy profession stands ready to assist in these objectives by sharing its experience and knowledge with government in the building of global solutions.

#### **Concluding Comments:**

The G20 and the accountancy profession should work more closely in addressing the financial crisis, and we welcome the opportunity to contribute through this submission and through future cooperation. The accountancy profession is in a unique position to inform governments and provide a practical and technical understanding of many issues related to the crisis, and to provide assistance in their resolution.

**List of Professional Accountancy Institutes from G20 Nations with Membership in IFAC**

**Argentina**

- Federación Argentina de Consejos Profesionales de Ciencias Económicas

**Australia**

- CPA Australia
- The Institute of Chartered Accountants in Australia
- National Institute of Accountants in Australia

**Brazil**

- Conselho Federal de Contabilidade
- Instituto dos Auditores Independentes do Brasil

**Canada**

- The Canadian Institute of Chartered Accountants
- Certified General Accountants' Association of Canada
- CMA Canada

**China**

- The Chinese Institute of Certified Public Accountants

**France**

- Compagnie Nationale des Commissaires aux Comptes
- Conseil Supérieur de l'Ordre des Experts-Comptables

**Germany**

- Institut der Wirtschaftsprüfer
- Wirtschaftsprüferkammer

**India**

- The Institute of Chartered Accountants of India
- The Institute of Cost and Works Accountants of India

**Indonesia**

- Indonesian Institute of Accountants or Ikatan Akuntan Indonesia

**Italy**

- Consiglio Nazionale dei Dottori Commercialisti e Degli Esperti Contabili

**Japan**

- The Japanese Institute of Certified Public Accountants

**Mexico**

- Instituto Mexicano de Contadores Públicos, A.C.

**Russia**

- The Institute of Professional Accountants of Russia
- Russian Collegium of Auditors

**Saudi Arabia**

- Saudi Organization for Certified Public Accountants

**South Africa**

- The South African Institute of Chartered Accountants
- The South African Institute of Professional Accountants

**South Korea**

- Korean Institute of Certified Public Accountants

**Turkey**

- Expert Accountants' Association of Turkey
- Union of Chambers of Certified Public Accountants of Turkey

**United Kingdom**

- The Association of Chartered Certified Accountants
- The Chartered Institute of Management Accountants
- The Chartered Institute of Public Finance and Accountancy
- The Institute of Chartered Accountants in England & Wales
- The Institute of Chartered Accountants of Scotland

**United States**

- American Institute of Certified Public Accountants
- National Association of State Boards of Accountancy