

**International Federation of Accountants**

**Global Seminar on the Sovereign Debt Crisis**

**Vienna: 19 - 20 March 2012**

***Accounting, Transparency and Financial Stability***

**Speech by Ian Ball**

**IFAC Chief Executive Officer**

Good morning, ladies and gentlemen.

My name is Ian Ball, I am CEO of the International Federation of Accountants—IFAC, and it is my pleasure to welcome you to Vienna and to this event.

Less than a year ago, at a meeting in Toronto IFAC initiated with the global leaders for the public sector of the big 6 accounting firms, there was a consensus among attendees—that the accountancy profession has a pivotal and influential role to play in the resolution of the sovereign debt crisis.

We needed a forum, to set in motion an international conversation that will prompt reform, promote convergence to one set of international standards, and contribute to financial stability and long-term fiscal sustainability. This is that forum.

At the outset I should give a special thank you to our sponsors, their representatives and especially our presenters, we are honored and grateful to have you all here. This forum would not have been possible without your enthusiastic support.

The next two days will afford us all the opportunity to address the crucial lessons government leaders around the world must take from this crisis—and, the steps urgently needed to achieve lasting reform.

We all look forward to the debate, and the critical exchange of ideas, as to how we can induce the change that is necessary. We need to identify the pressure points for change, and how we can mobilize the support necessary to apply that pressure.

It has been a matter almost of amazement that the crisis and instability we have been going through for the past four years has resulted in so little examination of the role, in generating the crisis, of the woefully deficient accounting, auditing, and financial management practices of governments. In the next two day we hope to go some way to filling this gap.

To quote Bill Clinton, “The price of doing the same old thing is far higher than the price of change.” I suspect all of us here today can agree that the same old thing, (in this case deficient, especially cash-based, accounting and financial management) does not work; the current state of affairs proves that. So there must be change.

I suspect also that in this room we are already largely on the same page, we know the important steps that must be taken for the world’s leaders to even begin to take the necessary steps toward remedying the sovereign debt crisis, and—perhaps even more crucial—prevent another crisis from occurring. Financial management reform, and the convergence to one set of high quality international public sector accounting standards are critical steps on the long road to recovery and long-term fiscal sustainability.

But, how do we build momentum for this journey

As many of you know, IFAC has long recognized that a fundamental way to protect the public interest is to develop, promote, and enforce a common set of high-quality international financial reporting standards for the public sector.

IFAC believes that in order to change the paradigm for government reporting, governments should adopt the accrual-based International Public Sector Accounting Standards (IPSASs), set by the International Public Sector Accounting Standards Board (IPSASB).

As early as 2007, we publically stated our concerns that the standards and regulations governing sovereign issuers were not of sufficient quality to protect investors and ensure the stability of capital markets.

In 2009, we all witnessed the global economic crisis deepen, bringing with it grave concern about the health of the global financial system. Here we are in early 2012, and the consequences of poor financial management in the public sector have reached a critical stage.

We should be clear that this is not just a European problem – I am sure this point will be forcefully made in the next two days.

### **G20 Submission**

In October of last year, IFAC's submission to the G20—which was a follow-up to submissions in 2009 and 2010—encouraged the G-20 to continue its commitment and work in addressing the issues arising from the global financial crisis, to meet the commitments made in its communiqués of 2008—2010 and in the reports of its working groups, and to strive for reporting

of high-quality, internationally consistent, relevant, and reliable financial and non-financial information by ALL sectors.

We specifically sought greater transparency and accountability in reporting and decision-making, especially in the public sector. IFAC recommended that the G-20 actively encourage and facilitate the adoption of accrual-based accounting by governments and public sector institutions, to be achieved through the adoption and implementation of International Public Sector Accounting Standards (IPSASs). But we also recognized that while necessary, high quality financial reporting is not sufficient.

With this in mind we specifically recommended “Urgent and fundamental work to consider the nature of institutional change in public sector financial management, transparency, and accountability”.

What is needed is work at the international level to consider the nature of the institutional changes that are essential to protect the public and to protect investors in government bonds. We encouraged the G-20 to initiate such work through the Financial Stability Board (FSB). An examination of reformed fiscal arrangements should include as possible components at least the following:

- audited financial statements within six months of year end;
- budgeting, appropriations, and reporting on the accrual basis;
- full transparency in fiscal positions ahead of general elections, ensuring that voting is fully informed;
- independent, audited projections of fiscal position to accompany budgets; and

- limitations on deficit spending, or at least full transparency around the reasons for deficit spending and explanations of how, over an economic cycle, fiscal balance will be restored.

#### **IFAC Public Policy Position 4**

We have distributed to you this morning, IFAC's Public Policy Position 4, *Public Sector Financial Management Transparency and Accountability: The Use of International Public Sector Accounting Standards*. IFAC will be issuing a press release at the end of today in New York on this most current public policy position paper.

PPP4 makes the case that Governments must implement the necessary institutional arrangements required to enhance public sector financial management transparency and accountability. An integral part of this is the adoption and implementation of IPSASs.

In this document IFAC reasserts our position that governments around the world must move now to implement these changes to protect the public, as well as investors. Governments must act to reestablish trust and credibility with their constituents, it is of utmost importance.

A principal way to accomplish this is through the reporting of accurate information which will lead to better decision making, increased confidence, and increased fiscal health. Please share the paper with your constituents and stakeholders.

### **So what are the obstacles in our way?**

There are many obstacles cited, including lack of resources, financial reporting policy issues, lack of trained professionals, development of accounting systems, constitutional and legal restrictions.

A lack of resources in developing nations is a legitimate issue and a true obstacle. To address this issue, there are cash-based IPSASs for those jurisdictions that wish to be transparent, but do not have the necessary resources yet to move to an accrual basis.

However, in developed countries, an alleged lack of resources is no excuse. Imagine a listed entity going to its regulator and explaining that while they were keen to meet the financial reporting requirements, they did not have the resources to operate such a sophisticated accounting system.

While I believe capacity in developing nations is a serious constraint, I believe the other obstacles can be overcome if there is the political will for high quality financial management.

The real obstacle to change and the most ominous one we face is—in my opinion—the absence of a political will for transparency on the part of too many governments. Why is it that even in the middle of a sovereign debt crisis, triggered by financial reporting fraud, there is not a strong will by governments for better financial reporting?

My answer is that the structure of incentives faced by politicians makes it advantageous for them to avoid the call for transparency; in addition, institutional arrangements that would be effective in forcing this transparency do not exist in most countries.

There are two elements to this answer:

- The incentives, which for an individual politician, as well as a political party, are generally short term, and often less strongly related to serving the public interest than we might wish.
- The current institutional arrangements, such as the budgeting and appropriations rules, requirements for fiscal responsibility and transparency, and accounting methodologies, provide weak incentives for high-quality reporting and financial management.

What this amounts to is that a well-argued case demonstrating how the global public interest is served by having uniform and high-quality public sector accounting standards will fall on deaf ears. This should not really surprise us.

When self-interested behavior in the private sector leads to undesirable social outcomes, such as pollution or the extraction of monopoly profits, we expect governments to act to constrain that self-interested behavior.

When governments make poor use of accounting and accounting information—because they do not want to be constrained in the way they universally constrain companies in the private sector—what can we do?

The trick lies in the second point: the institutional arrangements. Politicians need to work within a framework where the incentives do a better job of making the interests of those in government align to the public interest.

The institutions—the organizations, laws, processes and roles—that governments design to administer their financial affairs, have considerable power in shaping outcomes. We will hear more of this in the next two days, indeed in the next two hours!

Presently, the use of the cash basis for budgeting, appropriations, and reporting means governments are attempting to manage highly complex financial positions with outdated accounting and budgeting technology.

The results have the potential to be dire and indeed have been dire. The European sovereign debt crisis is not resolved even after a series of successively more powerful actions at the European and international levels, and serious risks to the global financial system remain.

Whether through deficient accounting standards, off-balance sheet transactions (though I am using this term loosely, as most national governments do not have conventionally understood balance sheets), or fraudulent misreporting, the real financial positions of governments are hidden. This enables governments to sustain, for a period, levels of cash outlays and debt that their real financial position cannot support.

### **What can the Accountancy profession and the academic world do?**

If the sovereign debt crisis does not stir us as the international accounting profession to speak out on this issue, we will have missed an opportunity, we will have failed to live up to our public interest obligations, and we will have let down the future generations who will have to pick up the tab. Without such action, the international financial system is exposed to ongoing significant risk and the global economy to unnecessary waste.



I see this forum as a means for us to exercise our voice on this issue, but also to invite others to join us, and collectively to look for ways we can bring about change. We have in the next two days a number of speakers who have been effective champions for change, and radical change.

### **Champions of Change**

This brings me full circle to all of us in this room. Here we are at the very beginning—day one of a rather full two day program, tackling a really critical challenge. I believe the accountancy profession does have a pivotal and influential role to play in the resolution of the sovereign debt crisis, but on its own will not bring about the necessary change. It is our hope, that this forum will make a real difference. It is IFAC's intent that this forum will lead to meaningful change. But this will not be easily achieved, the real work must commence immediately after the forum has concluded.

We have all attended events like this one, and have presented at numerous venues in our professional lifetimes. We have all experienced the enthusiasm, commitment and motivation that come from working together, and sharing ideas.

But what usually happens? We go back to our busy and chaotic lives, and the enthusiasm wanes. We cannot let that happen this time. The stakes are too high, we already have a vested interest by just being here today—we have to collectively and individually continue the movement and the conversation after we adjourn.

On the next two days we would like to gather as many ideas as possible as to how the set of changes can be accomplished. These ideas can form the basis for IFAC developing an agenda, and, hopefully with all of you, implement.

But one thing we can each do is to be “Champions of Change!”—a representative in the rally for accountability, transparency and stability. The influence of the people in this room is truly significant; our connections extend to every corner of the globe. We live in a time, beyond the six degrees of separation. Social media has connected us all, and we must use these media channels sharing your experiences at this seminar, asking others to join the dialogue, and more importantly—keep it alive and evolving.

Discuss these issues with your government officials and global leaders; engage Eurostat and others—lending your support for the adoption of IPSAS. Support the G20.

For any movement to have—and increase—momentum it must be public. We all must be as public as possible. We should not stand quietly by while governments continue to make the same mistakes, and refuse to recognize that the current systems in place do not work. This crisis is not going away, and the steps that have been taken so far will not solve the long-term problem.

Thank you all for coming, I look forward to working with you all in Vienna and in the weeks, months and years to come.