



June 5, 2012

The Group of Twenty
C/O Ambassador Patricia Espinosa Cantellano
Secretary of Foreign Affairs
Ministry of Foreign Affairs
Ave. Juárez #20
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**GLOBAL SUSTAINABILITY AND GROWTH
RECOMMENDATIONS FOR THE G-20 LEADERS' SUMMIT – JUNE 18-19, 2012**

Dear Ambassador Patricia Espinosa Cantellano:

The International Federation of Accountants (IFAC) is pleased to present the following recommendations for consideration at the G-20 Leaders' Summit on June 18-19, 2012 in Los Cabos, Mexico. These recommendations focus on actions aimed at promoting global sustainability and growth, and are directed towards several of the stated priorities of the Mexican presidency of the G-20.

This letter follows previous submissions to the G-20 in 2009, 2010, and 2011, and a letter submitted earlier this year. The first letter for 2012 was addressed to G-20 Deputies and Finance Ministers and focused solely on public sector financial management, transparency, and accountability (www.ifac.org/publications-resources/ifac-makes-recommendations-g-20). This current submission is addressed to G-20 Leaders, and as noted earlier, focuses on global sustainability and growth.

Priorities of the Mexican Presidency of the G-20

In developing and presenting recommendations pertaining to global sustainability and growth, IFAC is providing matters for consideration that are relevant to the stated priorities of the Mexican Presidency of the G-20. In particular, IFAC believes that the following recommendations, if adopted, will contribute to: (i) achieving economic stabilization and structural reforms as foundations for growth and employment; (ii) strengthening the financial system and fostering financial inclusion to promote economic growth; (iii) improving the international financial architecture in an interconnected world; and (iv) promoting sustainable development, green growth and the fight against climate change.

As a profession that has its foundation in a range of measurement, reporting, analysis, advisory, and assurance techniques, of information that is both financial and non-financial, the accountancy profession is well placed to provide solutions—and assist in finding solutions—to many of the current problems being confronted by the global community. The skills and expertise of the accountancy profession are critical to



advancing economic stability, strengthening financial systems and architecture, and promoting long term sustainability and growth.

With this in mind, IFAC makes the following recommendations.

Global solutions to global problems

Recommendation 1 IFAC recommends the adoption and implementation of:

- **International Financial Reporting Standards (IFRS);**
- **International Standards on Auditing (ISAs); and**
- **Auditor independence requirements set out in the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants (IESBA); across all jurisdictions.**

Recommendation 2 IFAC recommends that the G-20 works to support strengthened resourcing and governance arrangements of international regulatory organizations (including standard-setters) that have clearly defined expectations and responsibilities.

The problems highlighted by the global financial crisis demonstrate the inter-connectedness of the global economy, and the systemic risks that are present when there is a lack of high-quality, coordinated approaches to regulation. Inconsistent and poor quality—“non-converged”—regulation of key global industries and sectors provides opportunities for regulatory arbitrage and heightens the potential that global risks will not be appropriately identified and addressed. In turn, this can impede the attainment of global growth, and long term sustainability.

With this in mind, IFAC considers it critical that the G-20 continue its momentum and ambition for regulatory reform and convergence that has been developed over the last few years. While recognizing that there may be instances in the financial sector where complete convergence of regulatory requirements might not be the best outcome in the short-term, IFAC believes it is imperative that the G-20 support the adoption of globally accepted, high-quality international standards and requirements across all key aspects of the financial sector, in a manner appropriate for each regulated profession or industry. IFAC recognizes that there are some areas where global standards may need further development and enhancement. However, the way forward is to encourage and resource improvements in those global standards, rather than have individual jurisdictions make country-specific revisions and amendments. Additionally, it is important that G-20 nations are discouraged from implementing national regulatory reforms, which involve legislative changes that have extraterritorial impacts.

Specifically, in relation to the accountancy profession, IFAC recommends the adoption and implementation of: (i) IFRS; (ii) ISAs; and (iii) auditor independence requirements set out in the Code of Ethics for Professional Accountants, issued by IESBA; across all jurisdictions.

Consistent financial information around the world assists in facilitating cross-border activity and promoting economic and financial stability. Global adoption and implementation of high-quality standards promotes the G-20'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. Furthermore, IFAC notes that IFRSs and ISAs are two sets of standards that have been identified by the FSB, across 12 policy areas, as key for sound financial systems and deserving of timely implementation.

To assist in the consistent global adoption and implementation of standards it is important that regulatory organizations responsible for their introduction and oversight are appropriately resourced, and have clearly defined objectives. As such, IFAC recommends that the G-20 works to support strengthened resourcing and governance arrangements of international regulatory organizations (including standard-setters) that have clearly defined expectations and responsibilities. Where primary regulatory responsibilities rest with national bodies, it is important that G-20 nations ensure that such organizations are also well-resourced, and strive to coordinate, and act co-operatively with, equivalent bodies in other jurisdictions. In some areas, such as the inspection and oversight of auditors of public interest entities, this may involve mutual recognition by one jurisdiction, of another jurisdiction's arrangements.

Greater accountability and transparency in the management of public resources

Recommendation 3 IFAC recommends that the G-20 support the development of an international framework of governance for public sector organizations.

Recommendation 4 IFAC recommends that the G-20 continue to support the work of the Financial Action Task Force (FATF) with respect to the *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation* (FATF Recommendations), which aim to combat money laundering and terrorist financing.

Recommendation 5 IFAC recommends that G-20 nations develop, implement, and periodically update arrangements that aim to ensure that taxation obligations are properly assessed and collected according to the law.

As many nations currently grapple with public resourcing and sovereign debt issues, there is somewhat universal agreement that in many countries, current government financial positions, processes, and arrangements are unsustainable in the longer term. The threats to long term sustainability and standards of living brought about by an ageing population and by politicians taking a short-term focus on decision making, require immediate action. IFAC considers that greater transparency and accountability in the management of public resources requires that attention be given to a number of matters, most notably public sector financial reporting, governance arrangements for public sector organizations, measures aimed at eliminating corruption, and measures aimed at ensuring that citizens meet their responsibilities.

In terms of public sector financial reporting, IFAC presented its views and recommendations in its letter dated April 6, 2012, to G-20 Deputies and Finance Ministers (www.ifac.org/publications-resources/ifac-makes-recommendations-g-20).¹

With respect to governance arrangements, IFAC recommends that the G-20 support the development of an international framework of governance for public sector organizations. Currently, the Professional

¹ These recommendations included the need: to determine the nature of institutional changes required to enhance public sector financial management, transparency, and accountability; and for high-quality and timely accrual-based financial reporting in the public sector.



Accountants in Business (PAIB) Committee of IFAC and the Chartered Institute of Public Finance and Accountancy (CIPFA) of the UK are cooperating to develop an international governance framework for the public sector. The aim is to develop principles-based guidance that captures a broad range of best practices, thereby enabling and promoting the development of robust governance in the public sector internationally. The framework aims to support those groups that develop and set national governance codes for the public sector, as they review and improve their own codes. Where codes and guidance do not exist, it is intended that the framework would provide a shared understanding of what constitutes good governance in the public sector, as well as provide a powerful stimulus for positive action.

The management of public resources is severely impaired when corrupt practices divert those resources away from activities that are in public interest and promote the greater good, and toward individuals for simple economic gain. It is imperative that governments do their utmost to eliminate corruption, and implement measures aimed at identifying and preventing such practices. A key aspect of such measures is the prevention of money laundering. IFAC recommends that the G-20 continue to support the work of the Financial Action Task Force (FATF) with respect to the *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation* (FATF Recommendations), which aim to combat money laundering and terrorist financing. The implementation of these standards is encouraged across all countries. The FATF notes that “*when effectively implemented they can also help combat corruption, by: safeguarding the integrity of the public sector; protecting designated private sector institutions from abuse; increasing transparency of the financial system; and facilitating the detection, investigation and prosecution of corruption and money laundering, and the recovery of stolen assets.*”²

An important aspect of public resource management involves the maximization of the resources available for use by governments. The level of resources obtained by governments is restricted where citizens do not fulfill their responsibility to pay the amounts of taxation required. In not meeting this responsibility, some citizens are constraining the ability of governments to fully undertake all projects and other work required to promote growth and full employment. It places an unfair burden upon those citizens who do meet their obligations. In this regard, IFAC recommends that G-20 nations develop, implement, and periodically update arrangements that aim to ensure that taxation obligations are properly assessed and collected according to the law. Potentially, this involves a more simplistic taxation regime, in terms of the taxation laws and requirements, and the manner in which it is paid and transmitted to the government.

The establishment of new benchmarks for non-financial reporting

Recommendation 6 IFAC recommends that the G-20 formally signals its support for the work being undertaken by the International Integrated Reporting Council (IIRC) with respect to developing a framework for integrated reporting.

The financial crisis revealed the need for governments and private sector corporations to better understand how their financial and operating decisions impact all areas of society. Furthermore, it has highlighted the importance of understanding the long-term considerations of decision making, especially in the capital markets. Such understanding can be achieved through the use of integrated reporting,

² www.fatf-gafi.org/media/fatf/documents/reports/FORMATTED%20ANNUAL%20REPORT%20FOR%20PRINTING.pdf



which “demonstrates the linkages between an organization’s strategy, governance and financial performance, and the social, environmental and economic context within which it operates.”³ Arguably, “by reinforcing these connections, integrated reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing.”⁴

A common criticism of current financial reporting regimes is that they often fail to appropriately recognize the social, environmental, and long-term economic context within which businesses—whether they are in the public sector or private sector, or whether they are large and complex or small—operate. A thorough understanding of this context is imperative if the objectives of global sustainability and growth are to be achieved. As evidenced in the global financial crisis, a focus on short-term risks and rewards can encourage behaviors that lead to inappropriate and disastrous outcomes.

The IIRC was established with a mission to create a globally accepted integrated reporting framework which incorporates financial, environmental, social, and governance information in a clear, concise, consistent, and comparable format. It aims to develop this framework in a manner that assists organizations in providing relevant historical and forward-looking information, which it hopes will meet the needs of a more sustainable, global economy. The IIRC represents a collaboration of representatives from a cross-section of leaders from the corporate, investment, accounting, securities, regulatory, academic, and standard-setting sectors, as well as civil society. IFAC recommends that the G-20 formally signals its support for the work being undertaken by the IIRC with respect to developing a framework for integrated reporting.

The development of sustainable organizations

Recommendation 7 IFAC recommends that governments and regulators adhere to principles of high-quality regulation, especially economic impact assessment, in implementing evidence-based regulatory reform.

Recommendation 8 IFAC encourages the G-20 to promote the development of globally consistent effective and integrated governance, risk management, and internal control arrangements for organizations.

As well as promoting greater transparency and accountability in the management of public resources, it is important that G-20 nations promote the necessary environment in which all organizations, whether private sector or public sector, large or small, can operate efficiently and effectively, and in a long-term sustainable manner that contributes to nations’ prosperity and growth. Professional accountants, whether working within organizations or providing professional services and business advice as a public practitioner, have key roles to play in the development of sustainable organizations. They contribute a range of technical skills and expertise as professionally trained business leaders and service providers, in areas as diverse as financial and non-financial reporting, risk management and control, and organizational operations and governance.

³ www.theiirc.org/

⁴ www.theiirc.org/



The global financial crisis has precipitated substantial regulatory reform, with considerable new regulatory requirements being imposed by many governments across a broad range of sectors within the economy. While acknowledging that ongoing regulatory review and change is important and necessary, IFAC notes that greater financial and economic stability can be facilitated through reforms that are based on evidence (where possible), and which are appropriate and effective in providing the environmental context: within which organizations can operate with certainty; in which the public interest is protected; which promotes appropriate risk taking and management; and which fosters long term sustainability and growth.

Therefore, IFAC highlights the importance of governments and regulators adhering to principles of high-quality regulation, especially economic impact assessment, in implementing evidence-based regulatory reform. Several international organizations, such as the International Organization of Securities Commissions (IOSCO), the Basel Committee, and the Organisation for Economic Cooperation and Development (OECD), have issued principles of good regulation. One important consideration when enacting regulatory reform is to recognize that “one size does not fit all”, and that, for example, actions aimed at influencing the behavior of large companies may, if extended across the whole economy, negatively impact small and medium enterprises (SMEs). In many respects, SMEs are the engine of the global economy, and in many countries and industries, will be the primary source of new jobs, innovation and growth. Consequently, regulatory reform of financial and economic policies should not place unreasonable obstacles in the path of SMEs, and must explicitly take into account the costs and complexities that will impose unreasonable challenges on and threaten the sustainability of the small business sector.

As well as enhancing the external environment for organizations operating within a country, consideration must be given to the manner in which G-20 nations can encourage improved risk management and control, and decision-making processes within organizations. The costs to society when poorly managed companies fail can be considerable. IFAC encourages the G-20 to promote the development of globally consistent effective and integrated governance, risk management, and internal control arrangements for organizations.

The following suggested measures, which to a large extent are internationally recognized, are examples of what G-20 nations might consider promoting to improve organizational governance. While they apply to all commercial enterprises, they are of particular immediate concern for publicly listed companies.

- Establish fundamental ethical principles applicable to boards of directors. These principles should include integrity, objectivity, competence and due care, confidentiality, and professional behavior.
- 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.
- Require that risk management processes and controls be developed, implemented, tested, and reviewed. These arrangements should be overseen and monitored by the board.
- 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.

- Mandate that chief executive officers and chief financial officers/finance directors act as formal signatories to interim and annual financial statements.
- Set out competency requirements for those preparing financial statements—for publicly listed companies and governmental financial reporting.

The implementation of integrated reporting (refer Recommendation 6 above) will play an important role in encouraging organizations to take a broader, longer-term perspective of their operations, and to develop sustainable organizations.

Strengthening the accountancy profession in developing and emerging economies

Recommendation 9 IFAC recommends that G-20 nations support initiatives aimed at strengthening the accountancy profession in developing and emerging countries.

As noted previously, the accountancy profession is well placed to provide solutions—and assist in finding solutions—to many of the current problems being confronted by the global community. The skills and expertise of the accountancy profession are critical to advancing economic stability, strengthening financial systems and architecture, and promoting long term sustainability and growth. As such, IFAC believes that a high quality, well trained accountancy profession in all countries is an essential element to meeting objectives pertaining to:

- Effective adoption and implementation of international standards for financial reporting, auditing, ethics and public sector accounting;
- High-quality financial and non-financial reporting and disclosure;
- High standards of transparency and accountability in the management of public resources; and
- Robust anti-corruption measures.

Therefore, IFAC recommends that G-20 nations support initiatives aimed at strengthening the accountancy profession in developing and emerging countries. A recent (November 2011) initiative is the Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration (MOSAIC), which sets out the basis for improving cooperation and collaboration between IFAC, international donors, and the international development community. It provides the foundations for increasing the capacity of professional accountancy organizations and improving the quality of financial management systems in emerging economies (www.ifac.org/news-events/2011-11/signing-mosaic-memorandum-understanding-strengthen-accountancy-and-improve-colla).

More generally, initiatives should aim to:

- Build sustainable capacity in the accountancy profession on a national and regional level;
- Facilitate the establishment and strengthening of well-governed national accountancy bodies where they do not exist;



- Assist countries in achieving full adoption, implementation, and compliance with international standards;
- Support establishment and/or strengthening of an enabling legal environment;
- Strengthen monitoring and enforcement mechanisms;
- Greatly improve access to international standards;
- Support the provision of high quality training and curricula;
- Improve the availability of implementation guidance and practice manuals; and
- Enhance training in ethics.

Finally, G20 nations should explicitly commit to supporting the long-term development of the accountancy profession in their own countries, as appropriate.

Please contact us should you require further information on any of the recommendations included in this letter. IFAC would welcome the opportunity to participate in, or contribute to, activities that aim to progress these recommendations and to assist the G-20 in achieving its objectives.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ian Ball', written in a cursive style.

Ian Ball
Chief Executive Officer