



International Federation of Accountants

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June 15, 2010

The Group of Twenty (G-20)
c/o The G-20 Secretariat

Re: Recommendations for the G-20 Nations – Meeting of June 26-27, 2010

Dear G-20 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 G-20 at its meeting on June 26-27, 2010 in Toronto, Canada. These recommendations build on the previous submissions that IFAC provided to the G-20 in March and July of 2009.

The recommendations set forth in this submission are designed to address the G-20's discussion on stimulus programs. In doing so, we would like to emphasize the need for greater transparency and accountability in public sector finances. The government debt crisis in Greece and potentially other European countries illustrates the urgency for financial reform in the public sector and the need for sustainability in public finances, not only on the national level but also on the regional and local levels. The financial crisis, and especially the government debt crisis, creates a direct challenge to governments to report high-quality information to their stakeholders and investors, as they expect of the private sector.

We believe that the accountancy profession has an important role to play in resolving the current crisis and in building a reformed international financial system. Therefore, IFAC supports the G-20 and encourages the G-20 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.

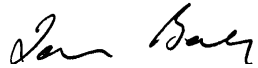
IFAC is the global organization for the accountancy profession. IFAC is comprised of 159 members and associates in 124 countries and jurisdictions.¹ Through them, we represent approximately 2.5 million accountants in public practice, education, government service, industry, and commerce. IFAC, through its independent standard-setting boards, and in conjunction with the international regulatory community, sets international auditing and

¹ For a list of professional accountancy institutes from G-20 nations with membership in IFAC, please refer to appendix A of this letter.

assurance, ethics, education, and public sector accounting standards. IFAC also issues guidance to encourage high-quality performance by professional accountants in business.

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 June 26-27 G-20 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

CALLING FOR FINANCIAL REFORM IN THE PUBLIC SECTOR AND GREATER ACCOUNTABILITY IN STIMULUS PROGRAMS AND BAILOUT PLANS

Recommendations for the G-20 Meeting of June 26-27, 2010, Toronto, Canada

The following recommendations represent the views of the International Federation of Accountants (IFAC). They serve as a follow-up to our previous submissions to the G-20 in 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 G-20 to continue its essential work on addressing the global financial crisis and to follow through quickly on the commitments made in its communiqués of 2009 and in the reports of its working groups.

The objective of this letter is to address the G-20's discussion on stimulus programs. In doing so, we would like to emphasize the need for greater transparency and accountability in public sector finances. The government debt crisis in Greece and potentially other European countries illustrates the urgency for financial reform in the public sector and the need for sustainability in public finances, not only on the national level but also on the regional and local levels. The financial crisis, and especially the government debt crisis, creates a direct challenge to governments to report high-quality information to their investors and other stakeholders, as they expect of the private sector. And as in the private sector such information needs to be subject to audits conducted according to high quality auditing standards.

We remind the G-20 nations of our call for adoption of a common set of accounting and auditing standards to improve transparency of financial reporting and reduce the cost of capital. We urge the G-20 members to adopt these standards in their own jurisdictions as a demonstration of their leadership on these global issues.

1. The G-20 should strongly encourage all governments to provide greater transparency and accountability in public sector finances.

As a result of the financial crisis, establishing greater trust between governments and their constituents should be one of the highest priorities for national leaders and public officials. Investors in government securities, taxpayers, and citizens in all nations should be provided with accurate and appropriate financial information regarding the balance sheets, public expenditures, and transactions for all governments and government-controlled entities. By providing accurate and complete information on such expenditures and transactions, governments demonstrate accountability and stewardship, reinforcing their own credibility and safeguarding their democratic legitimacy.

We urge governments and public sector entities throughout the world to provide clear and comprehensive information regarding the financial consequences of economic, political, and

social decisions. Such information should disclose the full, long-term economic impact of decisions, not just the immediate cash flows. Such information should also provide a clear understanding of the relationship between the market and non-market activities of the government, and between financial statements and statistical bases of financial reporting. In addition, such information should be broad enough in scope to provide insights about the past, present, and future, and should include prospective financial information about future expenditures.

Acknowledging that many governments adhere to the cash basis of accounting, IFAC and the International Public Sector Accounting Standards Board (IPSASB)¹ encourage the adoption of accrual-based accounting as it reinforces the principles of transparency and accountability. Under the accrual basis of accounting, transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, transactions and events are recognized and reported in the financial statements of the periods to which they relate. This is consistent with what is required of private-sector, publically listed companies to ensure that investors receive fully transparent financial information. Under accrual accounting there is reporting of assets, liabilities, net assets/equity, revenue, and expenses, and not just cash flows and cash balances.

Most significantly, the accrual basis for accounting records and reports assets and liabilities that are relevant to fiscal policy and long-term fiscal sustainability, but which are not necessarily reported under cash accounting. When items are not recorded, it is likely that they are also not well managed or are more susceptible to being manipulated. The accrual basis offers a more complete picture of a government's financial performance and position since it provides information not just on debt but also on governments' other liabilities, contingent liabilities, and guarantees. Accrual accounting practices improve not only the quality of financial information for all stakeholders (investors, taxpayers, ratepayers, public officials, suppliers, creditors, employees, the media, etc.), but also improve the quality of financial management, and they reduce the risk of financial reporting fraud.

2. The G-20 should encourage all governments to provide transparency and greater accountability in respect to stimulus programs and bailout plans designed to alleviate the global financial crisis.

In some countries, governments have responded to the global financial crisis with a series of stimulus programs and bailout plans. Stimulus programs have generally been designed to provide jobs, economic activity, and long-term investment in domestic industries. Bailout programs include monies for banks, government purchases of "toxic" assets, and loan modifications for mortgage holders. Both types of initiatives should include mechanisms for

¹ The International Public Sector Accounting Standards Board (IPSASB) is an independent standard-setting body under the auspices of IFAC. The IPSASB develops and issues International Public Sector Accounting Standards (IPSASs). It focuses on the accounting and financial reporting needs of national, regional, and local governments, related governmental agencies, and the constituencies they serve.

transparency and accountability so that their actual and intended outcomes are measurable and can be understood by investors, taxpayers, and other stakeholders.

In a crisis situation where governments must address an urgent problem and in doing so commit significant public resources, there may not enough time to develop adequate safeguards, checks, and other mechanisms of accountability. As a result, public resources allocated for specific objectives can be subject to inefficient usage, mismanagement, and corruption. IFAC urges G-20 governments to adopt the following principles with respect to current stimulus packages and bailout plans and new ones under consideration:

- (a) Transparency regarding all decision-making processes for governments, institutions, companies, and public programs selected to receive stimulus or bailout monies (providing clear objectives for why each recipient was chosen, the objectives set forth for remediation, and measurements of performance);
- (b) Independent oversight of stimulus and bailout programs to ensure that the management and performance of such programs, use of public funds, and political decisions regarding their allocation are appropriate and diligently administered;
- (c) A well-structured fiscal approach integrated or retrofitted into the design of each bailout plan, which provides for the management of public monies lent to institutions requiring government assistance; and
- (d) The application of accrual-based International Public Sector Accounting Standards (IPSASs) in the general purpose financial statements of public sector entities or institutions in receipt of stimulus or bailout monies and charged with implementing such programs for governments.

While these principles do not guarantee the success of any stimulus or bailout plan, they do provide added measures of accountability, set the stage for more efficient performance, and encourage governments and public officials to demonstrate greater responsibility in the implementation and follow-through of such plans.

3. The G-20 should encourage all nations to monitor government debt and liabilities for their true economic implications.

The financial crisis has placed governments under severe pressure to act quickly to alleviate the collapse of financial markets and prevent contagions which, in a global economy, can spread swiftly from one country to the next. The current economic crisis in Greece illustrates the stark implications (both nationally and internationally) of government debt failures and the inability of global institutions to accurately monitor the financial position of governments. In most countries, the political incentives of elected officials may conflict with the long-term obligations of government. However, reducing economic uncertainties and the significant threats that unmanageable government debt poses to investors, taxpayers, and financial markets should be a major priority for all governments.

On the national, regional, or local level, it is important to emphasize that government debt alone does not provide a comprehensive picture of fiscal soundness. The full disclosure of governments' liabilities and contingent liabilities (the latter referring to potential future liabilities that only become definite when certain conditions are met) is equally necessary for assessing the true economic implications of public sector financial management. Although the exact costs of contingent liabilities often cannot be calculated exactly (and in some cases do not ever materialize), their disclosure reduces uncertainty for investors and taxpayers.

IFAC urges the G-20 governments, the European Union (EU), and the International Monetary Fund to address government debt and liabilities as a central component of early warning systems that have been under discussion since 2008. IFAC believes that, in addition to financial rescue packages, more effective ways to monitor government debt and other liabilities, involving the cooperation and information sharing of institutions and governments at the international level, should be developed without delay. A global network (or series of regional networks, e.g., the EU) of information-sharing institutions that monitor government spending, liabilities, and related financial indicators on a country-by-country basis should be established to provide timely, systematic, and comparable data to policymakers and citizens.

Additionally, we recommend that the G-20 support the IMF/World Bank Reports on Observance of Standards and Codes (ROSC) initiative as a major step toward strengthening the international financial architecture. The ROSC initiative is a joint IMF/World Bank undertaking designed to assess the observance of selected standards relevant to private and financial sector development and stability. Standards play a central role in enhancing transparency and identifying weaknesses that may contribute to economic and financial vulnerability; facilitating market efficiency and discipline; and providing key benchmarks to guide policy reform.

4. In order to better assess systemic risks in government debt and liabilities on a global level, the G-20 should urge the adoption and implementation of International Public Sector Accounting Standards (IPSASs) in countries throughout the world.

In a new era of accountability and transparency, it will be critical for investors, taxpayers, and the general public to understand the full impact of decisions made by governments with respect to their financial performance, financial position, and cash flows. The adoption of IPSASs by governments worldwide will not only improve the quality of financial information reported by public entities, but also facilitate the comparability of such information on a global basis. As a universal set of public sector accounting standards, IPSASs would also provide better information regarding systemic risks associated with government liabilities.

The adoption of IPSASs would represent a significant step forward in achieving the financial transparency of national governments worldwide.² IPSASs are designed to apply to the general-

² IFAC recommended the adoption of IPSASs in each country as part of its letter to the G-20 dated July 31, 2009, for consideration at the September 24-25 G-20 Summit in Pittsburgh, PA. In doing so, IFAC noted several steps that

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 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. While application of IPSASs would not solve the problem of government debt, the appropriate use of the financial information rendered from such standards would assist public officials and other groups in assessing the implications of fiscal decisions made by government.

Stimulus programs, bailout plans, and large-scale international efforts, such as the intervention package recently approved for Greece, are all examples of actions taken to either remediate or avoid significant systemic risks in the global economy. These actions are taken by governments on behalf of taxpayers and citizens, and they are all connected to and reliant upon the condition of public sector finances. While application of IPSASs can help governments and their constituents more effectively monitor the performance of stimulus and bailout programs (and thus ensure greater accountability), they also act as a deterrent for the moral hazards that governments can create by distributing bailout funds to institutions that engage in irresponsible financial practices.

5. The G-20 should encourage all governments to adopt and implement common global standards not only for public sector accounting, but also for accounting, auditing, and auditor independence.

In order to improve the ability of capital markets to work globally, to allow investments to move more efficiently across borders, and to reduce risks and uncertainties in the capital markets, the G-20 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*.³ This will assist 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. Consistent financial information around the world can do much to facilitate cross-border activity and economic and financial stability.

will likely be universal for all national governments including (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) identification and provision of support to organizations in order to develop and deliver high-quality implementation guidance; and (d) development of national roadmaps for adoption and implementation of IPSASs that take into account the above factors (a – c).

³ IFAC recommended the adoption of IFRS, ISAs, and the *Code of Ethics for Professional Accountants* in each country as part of its letter to the G-20 dated July 31, 2009, for consideration at the September 24-25 G-20 summit in Pittsburgh, PA. See previous footnote for prescribed steps toward adoption and implementation of such standards.

The G-20'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 12 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 8th Council Directive on Company Law.

Concluding Comments:

We believe that the G-20 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. While the current financial crisis has brought to light many problems related to the world's financial systems, the problems associated with public finance and government debt require substantial action by governments to reform and dramatically upgrade the quality of their own financial management and financial reporting.

The accountancy profession is in a unique position to inform and support governments and provide a practical and technical understanding of many issues related to the crisis, and to provide assistance in their resolution. The G-20 and the accountancy profession should work more closely together in addressing the financial crisis, and we welcome the opportunity to contribute through this submission and through future cooperation.