

**Remarks by Robert L. Bunting, IFAC President  
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**Introduction**

- Good afternoon and thank you for that kind introduction.
- Before I begin, let me first express my deep appreciation to IOSCO for inviting me to speak here today and for sponsoring this very important conference.
- I'd also like to take this opportunity to sincerely thank IOSCO's representatives for participating in the work of the IAASB in developing the International Standards on Auditing, or ISAs.
- As I'm sure many of you know, IFAC and IOSCO have a long-standing relationship. But I think our relationship has been especially meaningful over the past six to seven years. We were especially proud to receive IOSCO's letter last year in which it officially endorsed the IAASB's ISAs.
- We have also been pleased to work with IOSCO as part of the Monitoring Group in its review of the IFAC reforms and look forward to responding to the consultation paper issued recently.

## **What role should the accounting and regulatory communities play in addressing the challenges posed by the sovereign debt crisis?**

- I'd like to begin by discussing a very topical subject ... one which I'm sure is on many of our minds today: The sovereign debt crisis and the role that accounting and regulatory communities should play in addressing the challenges posed by the crisis.
- Sovereign debt levels are a symptom of governmental financial systems that do not control, and frequently do not measure, governmental balance sheet positions. And it is increasingly obvious from events over the past few months that those balance sheets are not in good shape.
- You are probably well aware that in the markets represented in this room, the value of government debt traded on your exchanges likely exceeds by a significant multiple the value of corporate shares traded. So how governments report financial results is critically important.
- The issue of public sector financial reporting is not merely a "Flavor of the Month" for us. In 2007, IFAC sent a letter to the Technical Committee of IOSCO suggesting that public sector financial reporting be on its work program.
- Today, IFAC continues to believe that the financial reporting and disclosure of most governments globally has considerable room for improvement.

- Many governments do not even have balance sheets as conventionally understood. Rather, they operate on a cash basis—meaning they do not account for and report many significant items such as liabilities for public sector pensions or financial instruments. Yet accrual accounting is a fundamental tenet of strong accounting and reporting for public companies, and so it should be for governments, too.
- Given the dire fiscal positions of many governments, the need to improve the management of all public sector resources has never been higher. But it is difficult to manage that which you have no information about. Strong accrual accounting standards are therefore vital in enhancing government financial reporting and accountability.
- The International Public Sector Accounting Standards Board (IPSASB)—an independent standard setting board supported by IFAC—has a comprehensive set of accrual accounting standards for the public sector, named International Public Sector Accounting Standards, or IPSASs.
- IPSASs—the government equivalent of International Financial Reporting Standards—have been adopted by the United Nations, OECD, and the European Commission (for its own financial statements), among others. IPSAS have also been adopted for some—but not nearly enough—national level

governments (such as Switzerland, Austria, and South Africa.) And the momentum toward adopting IPSASs is definitely building globally.

- As regulators, I believe you have a unique opportunity to advance the public interest by advocating for high quality financial reporting and financial management by governments worldwide.
- This includes encouraging governments to improve their financial reporting and supporting the widespread adoption and implementation of accrual accounting. Ultimately, since governments are using taxpayers' (in other words, the public's) funds, a single set of internationally accepted accounting standards for the public sector based on IPSASs would enhance transparency and accountability of governments and would be strongly in the public interest.
- Let's be clear: Adopting IPSASs won't solve the sovereign debt crisis. But enhancing government financial reporting and financial management would be a strong step forward for enhancing economic growth and stability worldwide. And, going forward, it would change the incentives faced by governments, as the fiscal consequences of their decisions would hit the accounts much sooner. They would bear the consequences themselves, rather than being able to bequeath them to their successors.

## How would a single set of internationally accepted standards benefit a common regulatory approach?

- At IFAC, we believe that a single set of internationally-accepted standards would do more than benefit a common regulatory approach. In fact, a single set of internationally-accepted standards is *a necessary component* of a high-quality, well-functioning common regulatory approach.
- As regulators of the capital markets, I know your primary focus is on accounting standards, but I urge you to consider my comments in the context of auditing, independence, and public sector accounting standards, too.
- Let me be clear: I am not speaking today *only* on behalf of IFAC, or even the accounting profession in general. I believe I am speaking in the public's interest. A common regulatory approach is critical to open markets and a common understanding of how these markets are regulated.
- Without one set of standards, information is inconsistent and sometimes contradictory, and these differences clearly increase business costs and raise the risk of misinformation to the public.
- The G-20 clearly understood this when they called for one set of global accounting standards in order to create a more level international playing field.

- And at IFAC, we believe that one set of international *auditing* standards are no less necessary and important to help level this international playing field.
- Complexity is also increased for every filer and reporting accountant when multiple systems exist and mistakes are more likely to be made throughout the financial reporting supply chain.
- A common set of accounting and auditing standards allows for greater mobility of individuals who have accounting and auditing skills that are in short supply globally.
- In short, one set of *well implemented* international standards would improve both the *freedom* and the *cost* of capital. IFRS and ISAs clarify financial information, increase international investment in developing nations and support economic growth.
- That's why one of IFAC's main objectives is to help countries *adopt and implement* the ISAs. We are making progress.
  - The ISAs have strong local acceptance, by nearly 100 countries, where they have been adopted or are part of the local laws or regulations.
  - One recent example is Canada, who I would like to commend for adopting the ISAs within the last year.

- And, as I mentioned before, the ISAs have IOSCO's endorsement, which has encouraged securities regulators to accept audits performed in accordance with the clarified ISAs as a step toward worldwide adoption of a set of high quality auditing standards.

***Finally, Just a word about auditor independence***

- We must also strive for a single set of internationally-accepted standards in regards to codes of independence for auditors.
- Unfortunately, different codes have been developed and adopted by many jurisdictions.
- Subtle and technical differences between codes cause significant risks that independence requirements can be inadvertently breached.
- At IFAC, we absolutely support a strict independence code with prohibitions and safeguards against perceived threats. We also believe that a common independence standard for auditors would benefit the public interest.
- During the remainder of this year, I expect the chairman of the International Ethics Standards Board for Accountants (IESBA) to be visiting a number of regulators to discuss, on a one-on-one basis, what can be done to adopt the IESBA's newly-revised Code around the world.

- The IESBA's revised Code will be effective on January 1, 2011. It clarifies requirements for all professional accountants and significantly strengthens the independence requirements for auditors.
- We welcome feedback from regulators as to how we can improve this updated version so it will be universally adopted. This is one of the goals of the IESBA this year.
- In general, we will work hard to come up with a common solution to enable the independence aspects of the Code to become commonly accepted.

### **Conclusion**

- Well, I could go on but I know that we will be discussing some of the other subjects I'd like to touch on in our panel discussion.
- I'd like to conclude today by calling your attention to one of the principal lessons learned in the aftermath of the global financial crisis: It has become increasingly clear that we live in a global village.
- And I would like to suggest that it therefore takes a global village of regulators, governments, and standard setters—working in harmony and with common standards—to create fair and transparent financial markets.
- I'm pleased to be here and participating in this dialog about how that might be brought to pass.