

“Key Factors for the Development of Capital Markets”
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I am truly delighted to be here today to participate in this important event. My thanks and congratulations to Jorge Paganetti and to FACPCE for hosting CReCER this year.

The title of this session is “Key Factors for the Development of Capital Markets.”

We will hear from a variety of speakers, including representatives of the World Bank, the Inter-American Development Bank, and the Global Public Policy Committee.

They will speak about openness, transparency, the public sector, and the role of the auditor. I would like to spend a few minutes on IFAC’s role, and how we work with the other organizations to support efficient, effective capital markets.

Slide 2:

The global financial crisis really demonstrated the interrelationships between the accountancy profession, financial stability and economic development.

The development of capital markets requires credible and reliable financial information. Such information builds investor confidence, increases transparency, furthers sound economic and financial management and increases the attractiveness of a country’s investment climate—which, in turn, facilitates business development.

Compiling, auditing and disseminating high quality financial information is what we do. The foundation of high-quality financial information is the accountancy profession.

Slide 3:

Our new vision reflects that understanding.

Our vision is that the global accountancy profession be recognized as a valued leader in the development of sustainable organizations and financial markets and of strong international economies.

Slide 4:

We are the global organization for the accountancy profession, and for professional accountancy organizations. We support and develop these PAOs in order to support the overall financial infrastructure.

We also recognize that, in order to positively contribute to the development of capital markets, we need a strong financial infrastructure.

This includes high-quality, recognized standards in auditing, ethics, and public sector accounting.

As the global organization for the accountancy profession, IFAC supports independent standard-setting boards that develop these standards.

We also issue guidance to support professional accountants in business, small and medium practices, and emerging and transitioning countries.

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Regulation is a key factor for the development of capital markets. Clearly, it is a necessity.

But it must be balanced – and we must avoid over-regulating, which can stifle creativity and innovation, and hurt small and medium entities.

We must also allow self-regulation, where it's efficient and appropriate.

And globally converged standards and regulation are critical for the development of capital markets.

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One way IFAC has approached this issue is through the Private Sector Taskforce of Regulated Professions and Industries.

As you can see, it comprises representatives from private sector organizations of professions and industries that are subject to regulation, and operate within the financial sector.

This group was established in May. Our first task—an interim report, which will be submitted this week—focuses on global regulatory convergence—a critical issue for capital markets.

The report identifies gaps in global regulatory convergence, and how these gaps can be narrowed in order to minimize and better manage systemic risk. Narrowing these gaps will also reduce inefficiencies and costs; provide comparability and consistency for investors, regulators and market participants; and achieve a level playing field in relation to regulation, including standards.

The ultimate aim is to facilitate economic stability in the world's capital markets.

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IFAC has made a number of submissions to the G-20 over the years—in the public interest, and to facilitate economic stability in the world's capital markets.

Among our key themes, we call on the G-20 to:

- encourage all governments to adopt and implement common global standards not only for accounting, but also for auditing and for auditor independence.
- encourage all governments to provide greater transparency and accountability in public sector finances.
- enhance corporate governance in their respective countries and in the global marketplace.
- explicitly address the needs and the realities of SMEs
- commit to the long-term strengthening of the accountancy profession in developing and emerging countries.

- facilitate a debate with financial statements, financial reporting and sustainability

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We've also made comments and submissions in a variety of other areas related to regulation.

We have stressed that standard-setting should be a private/public partnership and a shared responsibility

And we have supported proposals to enhance the legitimacy, accountability and independence in the standard-setting process

Slide 9:

Let me talk a bit about these international standards.

The IAASB develops the International Standards on Auditing, or ISAs. They provide the standards by which the auditor examines a company's financial statements and judges whether they can be relied upon by investors, capital market participants, and policymakers with "reasonable assurance" that they are a true picture of the company's finances. The ISAs have been adopted by over 100 countries—and, importantly, CReCER, in only a few years, has already influenced the profession, governments, and regulators here in Latin America and has started a movement towards adoption and implementation of international standards. The ISAs also have the endorsement of the International Organizations of Securities Commissions. Along with the IFRSs, ISAs will help Latin American countries ensure clear and transparent financial information is produced, and will facilitate the comparison of financial information from Latin American countries, reinforce investors' confidence, attract investment and further support economic growth.

Next, there is the International Code of Ethics for Accountants, which stands as an assurance of the behavior of the accountant. Developed by the International Ethics Standards Board for Accountants, the Code of Ethics sets out standards of integrity, objectivity, professional competence and due care, confidentiality of information, and professional behavior regarding compliance with relevant laws and regulations. All 164 member bodies of IFAC must commit to adopt the Code for their members—whether in public practice, in business, education, or the public sector—and no member body or firm issuing reports in accordance with International Auditing and Assurance Standards is allowed to apply less stringent standards than those stated in the Code.

Third, International Education Standards are developed to strengthen the worldwide accountancy profession through the development and enhancement of education. These standards focus on developing the professional knowledge, skills, values, ethics, and attitudes of the accountancy profession—both in terms of pre-qualification education and training of professional accountants, and on continuing professional education and development for members of the accountancy profession.

And fourth, there are the International Public Sector Accounting Standards, the IPSASs, which are designed to be used in preparing general purpose financial statements of public sector entities, including national, regional, and local governments. Over 65 countries are currently using or are in the process of adopting or incorporating the IPSASs, and many other governments apply standards that are broadly consistent with IPSAS requirements. This

provides a level of transparency that enables investors to consider the financial stability of a country they plan to invest in. It is also vital in providing accountability to citizens and to fighting corruption.

All of these standards are developed through a rigorous due process, with input from national standard setters, IFAC member bodies and regional organizations, the general public, and many others. And they all exist in order to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation—and contribute to high quality financial information.

Emerging economies need them as much as Wall Street or the Tokyo Stock Exchange. Perhaps they need them even more, because their businesses have so much to prove to foreign investors about their own viability and the stability of their monetary systems.

And these standards are all developed, adopted and implemented in the public interest.

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In addition to supporting the standard-setting boards, IFAC also has constituency-focused activities that work to support high-quality financial information.

First, we have the Small and Medium Practices, or SMP, Committee.

This committee focuses on the needs of SMPs and their clients, small- and medium-sized entities—a key sector in this region of the world. SMEs are a key factor for economic growth and development. Indeed, around the world SMEs account for approximately two-thirds of private sector revenues and a similar percentage of employment. They create more new jobs than larger, more mature companies, and they are far more innovative in bringing new products to market and creating entirely new markets, especially in consumer goods and technology.

How does the SMP Committee support this sector?

First, it maintains The International Center for Small and Medium Practices on the IFAC website, which provides resources and facilitates the exchange of knowledge and best practices among SMPs. It also works to ensure the needs of the SMP sector are considered by standard setters, and speaks out on behalf of SMPs to raise awareness of their value and the importance of the small business sector overall. Finally, it develops free guidance and tools, including the ISA Guide for Small and Medium Audits and the Quality Control Guide for SMPs—two very important implementation resources.

I'm happy to see that CReCER this year will include a workshop on IFRS for SMEs—this is a very important sector for us to support.

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Second, is the Professional Accountants in Business, or PAIB, Committee.

There are more than one million professional accountants worldwide employed in commerce, industry, financial services, the public sector, education, and the not-for-profit sector. And this committee develops resources for them and helps exchange knowledge and best practices among them. The committee also helps build global recognition of professional accountants as business leaders and strategic partners in building long-term sustainable value.

The PAIB Committee is currently focused on governance and ethics, risk management and control, sustainability and corporate responsibility; financial management; and business reporting.

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Then we have IFAC's Compliance Advisory Panel, or CAP.

This group works with IFAC members and associates to develop Action Plans.

These plans are basically strategic road maps to help the organizations become stronger and better, and make progress with respect to the IFAC's 7 Statements of Membership Obligations, which cover quality assurance; accountancy education; accounting, auditing, and ethics standards; and investigation and discipline.

The CAP works closely with these organizations to develop their Action Plans, further contributing to the improvement of accounting and auditing regulation in their country.

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And finally, the PAO Development Committee.

As its name states, this committee supports the development of professional accountancy bodies—working to strengthen existing national and regional organizations and help establish ones where they do not exist. This committee also helps with accountancy capacity-building and skill development.

It recently published a revised edition of a Good Practice Guide, *Establishing and Developing a Professional Accountancy Body*, to support professional accountancy organizations in areas including role and responsibilities, education and examinations, and capacity development. The guide was developed in English, and will be translated into Arabic, French, Russian and Spanish later this year.

The Committee also recognizes that accounting technicians are an important component of the profession in many emerging economies, particularly where there is strong demand for skilled individuals to contribute to the financial reporting and decision-making process, but individuals may not have the resources to qualify as professional accountants. The Good Practice Guide: *The Education, Training and Development of Accounting Technicians*, raises awareness of the need for and role of accounting technicians, especially in developing nations.

In addition to these resources, the Committee also undertakes outreach activities to provide professional accounting organizations with guidance on their development and answer their technical questions.

It also acts as an advocate and provides a bridge to third party organizations, partnering with organizations such as the World Bank, the IDB, and other donor agencies to increase the capacity of the accountancy profession in developing economies. Helping countries and regions develop in this way is an enormous multifaceted challenge—and we clearly recognize that we need to work together to coordinate our activities.

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IFAC is an international organization, and our focus is naturally broad in scope.

One of the primary ways IFAC accomplishes its goals is through the professional accountancy organizations, regional organizations, and acknowledged accountancy groupings. You are the ones that are “on the ground” building capacity and contributing to worldwide economic growth.

You further the adoption and implementation of international accounting standards. You make sure that your members comply with the Code of Ethics for Professional Accountants. You educate and train professional accountants. You help practitioners stay up-to-date on best practices, understand the requirements of various standards, and provide high quality services in the highest professional manner.

There’s no doubt about it, PAOs make major contributions to the development of capital markets.

IFAC regional organizations and accountancy groupings play a key role in coordinating our efforts and development activities. They enable regional pooling of resources and expertise, which helps minimize costs. And they enable sharing of knowledge and expertise from more established accountancy professions with those less established within the region, providing direct technical assistance and guidance in developing the profession, and conducting regional trainings, seminars and educational activities—such as CReCER.

And in these ways, regional organizations and accountancy groupings also make major contributions to the development of capital markets.

Because, clearly, global accountancy profession is the foundation of high-quality financial information.

And high-quality financial information underpins the effective functioning of capital markets.

And that is why we all must work together to establish and strengthen the profession, and actively promote global accountancy development.

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Again, I thank you for inviting me to be here today.

We at IFAC look forward to continuing to work with you to develop the accountancy profession around the world... and to support capital markets.

Thank you.