

Integrating ASEAN Capital Markets: Need for Strong Financial Reporting Environment and Building Investor Confidence

More than 150 attendees from 14 countries, including ASEAN, gathered on 7 May 2013 at a symposium to discuss strategies for building investor confidence through a strong financial reporting infrastructure that supports the integration of the ASEAN capital markets.



The symposium, “ASEAN Capital Markets—The Importance of a Strong Financial Reporting Environment,” was organised by the Global Public Policy Committee (GPPC) and the International Federation of Accountants (IFAC), and supported by the Institute of Certified Public Accountants of Singapore (ICPAS), US-ASEAN Business Council (USABC), and Asian Corporate Governance Association (ACGA).

ASEAN Economic Community 2015

ASEAN, comprising 10 member States of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam, with its population of about 600 million, represents one of the fastest growing economic regions in the world.

In his address at the recent 22nd ASEAN Summit in Brunei, Singapore’s Prime Minister Lee Hsien Loong urged Southeast Asian leaders to press ahead with its pledge to build an ASEAN Economic Community (AEC) by 2015. He warned that uncertainties ahead such as continued weakness in global economic growth and regional hot spots, that could turn into conflict if not carefully managed, could weaken ASEAN’s progress. The AEC which would facilitate the free flow of goods, services, skilled labour and, more importantly, capital is critical to increasing opportunities for ASEAN member States to prosper and reduce the likelihood of conflict.

The symposium, with its theme on the importance of high-quality financial reporting in building investor confidence and promoting economic growth, was thus very timely. In addition to setting the scene on ASEAN capital markets, the panel discussions covered the three key elements required for high-quality financial reporting, namely, a strong financial reporting infrastructure, independent oversight of auditors, and corporate governance in the ASEAN region.

The Global Public Policy Committee (GPPC) comprises representatives of the six largest international audit firm networks (BDO, Deloitte, Ernst & Young, Grant Thornton, KPMG, and PricewaterhouseCoopers). The GPPC’s Regulatory Working Group (RWG) brings together senior partners from the six global accounting networks to address regulatory and public policy issues of common interest that are relevant to the accounting and auditing profession.

Setting the Scene

In the first session on “*Setting the Scene: the ASEAN Community and its Capital Markets*”, panel members agreed that the ASEAN markets represent an attractive growth story. ASEAN’s combined GDP of \$2.2 trillion in 2012 is projected to grow by five times to \$10 trillion by 2030. This will be fuelled mainly by private consumption, especially by the growing middle class, and investment. In particular, an estimated US\$600 billion investment is required in economic and social infrastructure over the next ten years in the region. Public sector financing is unlikely to be sufficient. This is also a task beyond the means of any one ASEAN country.

The panel members echoed what Minister of State Josephine Teo, the symposium’s Guest of Honour, said about the need to establish an integrated ASEAN capital market to realise its full potential. As one panel member puts it, ASEAN will have to work together to find ways to develop bankable projects to catalyse private-sector financing and facilitate the flow of investments. The panel members discussed at length on getting the plumbing right to attract investors into the markets. Some examples offered by panel members that could spur investment include reducing friction of moving funds into and across the markets, providing secure ownership rights, ensuring protection of investors, and even facilitating the exit of funds, just as we facilitate their access into the markets.



Mrs Josephine Teo
Minister of State, Ministry of Finance and Ministry of Transport

In doing so, stock exchanges in ASEAN should aim for high standards, and adopt the principle of racing to the top rather than the bottom, as they compete in attracting funds to their markets.

Beyond this, there is a need for capacity-building so that we have the right people with the right skills and in the right numbers to establish a strong financial reporting infrastructure that will propel and support the region’s economic growth.

A Strong Financial Reporting Infrastructure



Mr Warren Allen
President, International Federation of Accountants (IFAC)

In the second session entitled “*A Strong Financial Reporting Infrastructure: Vital for a Growing Economy and Strong Capital Market*”, IFAC President Warren Allen shared how IFAC envisioned the accountancy profession to be recognised as a valued leader in the development of strong and sustainable organisations, financial markets, and economies. He said “that to positively contribute to the economic development and the development of capital markets, a strong financial reporting infrastructure, which includes high-quality recognised standards in auditing and assurance, ethics, education, and public sector accounting is needed.”

As highlighted in the earlier panel, the value of intra-ASEAN flows for the physical trade and M&A volumes, which totalled US\$430 billion over the last ten years, was in fact greater than the combined sum total of the flows between ASEAN and North Asia, Japan, Europe and North America. To facilitate such flows, there is a need for a strong financial reporting infrastructure within ASEAN under which business practices and regulation are improved, corporate governance and accountability enhanced, and common accounting rules adopted and practised. In this aspect, the adoption of International Financial Reporting Standards or IFRS by the ASEAN countries will be an important enabler.

In addition to supporting the adoption and consistent implementation of high-quality international standards, it is also vital to provide support to key actors in the financial reporting supply chain, including auditors, preparers, and national or professional accountancy organizations.

In agreement, ICPAS President Dr Ernest Kan shared that it is imperative that accountants, both auditors and preparers alike, receive proper initial and continuing professional development and education, especially given continual developments in business and financial transactions as well as rapid changes in accounting and auditing standards.

Of note, there is a direct relationship between strong national/professional accountancy organizations and healthy financial sector performance, overall growth, and social progress. National accountancy organizations must strive to become “centres of excellence” for their countries. It is therefore important to build their capability and capacity. This effort can be facilitated by the support of stakeholders such as national governments and international bodies like IFAC and the



Dr Ernest Kan
President, *Institute of Certified Public Accountants of Singapore (ICPAS)*

Independent Oversight of Auditors

In the third session on “*Independent Oversight of Auditors*”, panel members emphasised that an essential ingredient for successful integration of ASEAN capital markets is effective audit oversight in as many ASEAN member States as possible, if not across the whole ASEAN region. Towards this goal, the ASEAN Audit Regulatory Group or AARG plays an important role in sharing best practices in audit regulation and inspection, and encouraging and helping other ASEAN members to develop independent audit oversight.

In particular, the collaboration and coordination among audit oversight bodies in ASEAN will improve overall audit quality, enhance consistency of regulation and set common expectations of audit firms across the region as well as help form common understanding to tackle regional issues including root causes of risks to audit quality. Overall, this will contribute to the trustworthiness of financial information and market confidence and facilitate cross-border business and transactions within the region.

Corporate Governance in ASEAN region

In the last session on “*Corporate Governance in the ASEAN region*”, panel members highlighted the importance of strong corporate governance in attracting and retaining investment. One key issue was how to foster such governance. One view was that a mandatory approach was more suited for the ASEAN market given that most businesses are family-run as opposed to being managed by a professional management team, and that any voluntary approach should be seen as an enhancement to the mandatory requirements.

On how corporate disclosures can impact corporate governance, there were views that capital markets need more meaningful disclosures and not necessarily more disclosures, which may unwittingly confuse investors or could obscure difficult situations that the business is facing.

In addition, the role and responsibilities of an independent director in ASEAN appears to differ from other parts of the world. The lack of clear definitions and appointment processes for independent directors in the ASEAN region casts doubt on the effectiveness of the system. A view was raised on the need for greater regulation in areas like the minimum number of independent directors on the board, the maximum number of directorship appointments an individual could hold, and director training to ensure that directors are carrying out their roles and responsibilities effectively.

Conclusion

The symposium provided a valuable platform for regulators, policy makers, the profession and investors to share ideas on how to establish strong ASEAN capital markets and help move closer towards the goal of the ASEAN Economic Community. It re-affirmed the importance of high-quality financial reporting in building investor confidence and promoting economic growth in the ASEAN region. As Minister of State Josephine Teo recalled the words of one veteran banker in her opening remarks that “no transparency, no trust; no trust, no credit; no credit, no investment; no investment, no growth”.

This article is contributed by Yee Cheok Hong, Executive Director of Policy and Strategic Planning / Industry Development and Joyce Tang, Deputy Head of Policy and Strategic Planning of the Institute of Certified Public Accountants of Singapore.

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF SINGAPORE

20 Aljunied Road #06-02
CPA House Singapore 389805

Tel: (65) 6749 8060
Fax: (65) 6749 8061
Email:
cpasingapore@icpas.org.sg

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ICPAS accords the CPA Singapore designation. Working closely alongside businesses, ICPAS connects its membership to an unmatched range of information resources, events, professional development and networking opportunities. Presently, there are over 26,000 members making their strides in businesses across all industries in Singapore and around the world.

ICPAS' international outlook and connections are reflected in its membership of regional and international professional organisations like the ASEAN Federation of Accountants (AFA), the Asia-Oceania Tax Consultants' Association (AOTCA), the International Federation of Accountants (IFAC) and International Innovation Network (IIN).

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