

October 8, 2014

Dr. Heather Smith  
Deputy Secretary, G20 Sherpa  
C/o G20 Taskforce  
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**SUPPORTING ECONOMIC GROWTH AND BUILDING ECONOMIC RESILIENCE  
RECOMMENDATIONS FOR THE G-20 LEADERS' SUMMIT – NOVEMBER 15-16, 2014**

Dear Dr. Smith,

The International Federation of Accountants (IFAC)<sup>1</sup> offers the following recommendations for discussion and endorsement by government leaders at the G-20 Leaders' Summit on November 15-16, 2014, in Brisbane, Australia.<sup>2</sup> They focus on actions aimed at achieving strong, sustainable, and balanced growth, ensuring a more robust and resilient economy; and addressing causes of the global financial crisis through financial regulatory reform and enhancing the international taxation system.

The accountancy profession's skills and experience are essential for advancing economic stability, strengthening financial systems and architecture, and promoting accountability and long-term sustainability and growth—growth and stability that require integrity in the recognition, measurement, processing, and reporting of financial transactions.

In fact, a strong, vibrant accountancy profession is essential across all parts of the globe. IFAC, in collaboration with its member bodies, other key international organizations (e.g., the World Bank, multilateral development banks, etc.), and the donor community, has initiated a variety of support activities aimed toward enhancing and developing the capacity of the profession worldwide and, in particular, in developing and emerging nations. As noted on the Australian G-20 website, "*according to the International Monetary Fund, emerging market and developing economies contribute more than two thirds of global growth.*"<sup>3</sup>

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<sup>1</sup> IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC comprises 179 members and associates in 130 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.

<sup>2</sup> This letter follows previous submissions to the G-20 in each of the last five years. Refer to [IFAC website](#).

<sup>3</sup> Refer to [Australia 2014 G20 Website](#)



This letter follows previous submissions to the G-20 in each of the last five years.<sup>4</sup> A number of recommendations included in these previous submissions are still relevant and continue to be promoted by IFAC. They are listed in the appendix to this letter and include recommendations for supporting the International Integrated Reporting Council (IIRC)'s work on developing a framework for integrated reporting, as well as for strengthening the accountancy profession in developing and emerging economies.

## **Recommendations**

Trust and transparency are essential elements for strengthening financial systems and architecture and for promoting economic stability, accountability, long-term sustainability, and growth. IFAC recommends that G-20 countries direct their attention toward specific areas that inspire greater levels of trust and transparency, including: (i) global consistency where needed to achieve sound financial regulation; (ii) enhanced financial management, reporting, transparency, and accountability by governments; and (iii) effective taxation systems.

### **1. Global Consistency for Sound Financial Regulation**

There is growing recognition of the impacts of the increasing pace and volume of regulatory reform that has taken place in the financial arena in the last five to six years. It is important to ensure that reforms are undertaken in line with principles of good regulation and recognize that there is a balance to be struck between reducing risks in capital markets and imposing unreasonable regulatory burdens.

Reforms should be addressed in a globally consistent manner—to the extent possible and appropriate—if they are to be effective in mitigating future global crises, or to assist in responding to such crises when they occur. National regulatory reforms need to carefully consider the extra-territorial impacts and unintended consequences that could create uneven playing fields and might promote regulatory arbitrage.

Specifically, for financial information and financial reporting, globally consistent and effective regulation requires the global adoption and implementation of high-quality standards, which assists in facilitating cross-border activity, promoting economic and financial stability, and strengthening transparency and accountability. International Financial Reporting Standards (IFRSs) and International Standards on Auditing (ISAs) are two sets of standards that the Financial Stability Board (FSB) has identified, across 12 policy areas, as key for sound financial systems and deserving of timely implementation.

Notwithstanding the opinion, expressed by several commentators, that the opportunity for convergence of IFRS and US Generally Accepted Accounting Principles has passed, IFAC supports the G-20 position previously expressed that there is a need for a single set of high-quality, globally accepted financial reporting standards.

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<sup>4</sup> Refer to the [IFAC website](#).



### ***Reigniting momentum for regulatory consistency***

#### **Recommendation 1**

IFAC **recommends** that the G-20 maintains its momentum and ambition for regulatory reform and convergence developed during the global financial crisis. Global consistency promotes opportunities for measured and appropriate responses to avoid global crises and promotes greater opportunities for unrestricted cross-border trade.

### ***Principles of high-quality regulation***

#### **Recommendation 2**

IFAC **recommends** that governments and regulators adhere to principles of high-quality regulation, especially:

- clearly defined objectives for what the regulation is intended to address;
- targeted, non-discriminatory regulation that is consistently and fairly implemented;
- proportionate regulation that takes account of the size and complexity of the organizations to which it is applied and the disproportionate impacts it might have on different organizations;
- impact assessments to determine the likely impact of the intended regulation on those who will be subject to it;
- broad consultation with those affected by the regulation;
- cooperation and collaborative dialogue with other key regulators; and
- evidence-based regulation, where appropriate, and relevant research to inform policy making.

### ***Adoption and implementation of globally accepted, high-quality international standards***

#### **Recommendation 3**

IFAC **recommends** that the G-20 works to support strengthened resourcing and governance arrangements for international regulatory organizations and standard setters that have clearly defined expectations and responsibilities.



**Recommendation 4**

IFAC **recommends** the adoption and implementation, across all jurisdictions, of:

- International Financial Reporting Standards;
- International Standards on Auditing;
- Auditor independence requirements set out in the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants; and
- International Public Sector Accounting Standards (IPSASs).

**2. Financial Management, Reporting, Transparency, and Accountability by Governments**

Despite increasing awareness of the issue over the last few years, inadequate public sector financial management and poor government transparency and accountability, in many parts of the world, remain a significant threat to global financial stability. Economic and social impacts of the widespread failures of fiscal management in the public sector far exceeded the impact of losses incurred by corporate failures in the first decade of this century.

Governments require robust financial management practices, founded on a bedrock of high-quality accrual-based financial reporting for a sound today, tomorrow, and long-term sustainable future. A failure to act and make significant reforms will mean that many governments will continue to make decisions based on incomplete information. The ability to meet debt servicing obligations, maintain appropriate levels and quality of service delivery, and meet social benefit program obligations, will diminish, and the confidence of citizens, investors, and other stakeholders will be reduced.

Fundamental reforms to improve the level of transparency and accountability are also needed urgently in many jurisdictions to create incentives for governments to manage their finances in a manner that protects citizens, the public interest, and investors in government debt. Reforms must focus on issues such as: (i) timely publication of high-quality audited accrual-based financial reporting; (ii) budgeting, appropriations, and reporting on the same accrual basis; (iii) full transparency in fiscal positions ahead of general elections, ensuring that voting is fully informed; and (iv) limitations on deficit spending, or at least full transparency around the reasons for deficit spending, and explanations of how, over an economic cycle, fiscal balance will be restored.

**Recommendation 5**

IFAC **recommends** that the G-20 actively encourages and facilitates the adoption of accrual-based accounting by governments and public sector institutions, which in turn would facilitate improved financial management in the public sector, better decision making, and allow monitoring of government debt and liabilities to determine their true economic implications.



**Recommendation 6**

IFAC **recommends** that the G-20 commissions urgent and fundamental work to consider the nature of institutional changes needed in public sector financial management to protect the public and investors in government bonds and to promote greater transparency and accountability.

**Recommendation 7**

IFAC **recommends** that, in relation to the FSB, the G-20:

- explicitly requires the FSB's role to encompass public sector arrangements;
- establishes a working group within the FSB architecture that is specifically tasked with examining enhanced public sector financial reporting, transparency, and accountability, including transparency around deficit spending; and
- directs the FSB to include IPSASs as a set of standards key for sound financial systems and deserving of timely implementation.

**3. Effective Taxation Systems**

Sound, effective taxation systems are essential for the functioning of modern societies and economies. They ideally should have clear objectives, promote transparency, and, where possible, be simple to apply and monitor. Reforms to taxation systems should be balanced and properly considered and encourage tax to be paid in jurisdictions where real economic activity occurs.

The effectiveness of taxation systems may be undermined where taxation outcomes do not reflect the economic substance of transactions, or where taxation considerations are the primary justification for the initiation of investments or transactions that otherwise would not take place.

Cooperation between jurisdictions, for example, through the use of international treaties and information sharing arrangements, is important to promote the right accountabilities and long-term global sustainability and growth.

It is important that the G-20 has identified taxation as a priority area and has requested that work be undertaken by the Organisation for Economic Co-operation and Development (OECD) to identify actions that will allow governments to collect the tax revenue they need to serve their citizens.

**Recommendation 8**

IFAC **recommends** that G-20 nations:

- enhance the design and effectiveness of taxation systems, as they apply to organizations of all sizes, as a means of encouraging economic growth; and
- act cooperatively to support the work of the OECD and address issues of base erosion and profit shifting to enhance the transparency and integrity of taxation systems and reporting, and that:



- taxation arrangements encourage tax to be paid in jurisdictions where real economic activity occurs;
- taxation reforms are balanced, properly considered, practical, and implemented in a coordinated and consistent manner;
- consideration is given to reaching international agreement on a properly resourced dispute resolution mechanism;
- the impacts of jurisdictions using taxation as incentives for investment are recognized, including the potential that investment choices may be otherwise distorted; and
- the needs of developing countries and emerging economies are properly considered and addressed.

Please contact us should you require further information on any of the recommendations included in this letter.

IFAC welcomes the opportunity to participate in, or contribute to, activities that aim to further these recommendations and to assist the G-20 in achieving its objectives.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Faye Choudhury', written over a light blue rectangular background.

Fayezul Choudhury  
Chief Executive Officer



**SELECTED RECOMENDATIONS INCLUDED IN IFAC SUBMISSIONS TO THE G-20 IN 2009-2013**

**Integrated reporting**

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

**Strengthening the accountancy profession in developing and emerging economies**

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

**The development of sustainable organizations**

- IFAC recommends that governments and regulators adhere to principles of high-quality regulation, especially economic impact assessment, in implementing evidence-based regulatory reform.
- IFAC encourages the G-20 to promote the development of globally consistent effective and integrated governance, risk management, and internal control arrangements for organizations.

**Greater accountability and transparency in the management of public resources**

- 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.