



August 23, 2013

The Group of Twenty  
C/O Ms. Ksenia Yudaeva  
Chief of the Presidential Experts' Directorate  
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103132 Moscow  
RUSSIA

**ACCOUNTABILITY, SUSTAINABILITY, AND GROWTH  
RECOMMENDATIONS FOR THE G-20 LEADERS' SUMMIT – SEPTEMBER 5-6, 2013**

Dear Ms. Yudaeva:

The International Federation of Accountants (IFAC) offers the following recommendations for consideration at the G-20 Leaders' Summit on September 5-6, 2013 in St. Petersburg, Russia.

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 is comprised of 173 members and associates in 129 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.

The accountancy profession has a long history of expertise in a range of measurement, reporting, analysis, advisory, and assurance techniques of financial and non-financial information, and is well placed to assist governments and policy makers to find solutions to many of the current problems confronting the global economy. The profession's skills and experience are critical to advancing economic stability, strengthening financial systems and architecture, and promoting accountability and long-term sustainability and growth.

This letter follows previous submissions to the G-20 in each of the last four years<sup>1</sup>. A number of recommendations included in these submissions that are still relevant and continue to be promoted by IFAC are listed in the appendix to this letter. These include recommendations pertaining to the need for greater accountability and transparency in the management of public resources, and the strengthening of the accountancy profession in developing and emerging economies.

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<sup>1</sup> Refer to the [IFAC website](http://www.ifac.org).



### **Priorities of the Russian Presidency of the G-20**

The following recommendations focus on actions aimed at promoting accountability, sustainability, and growth, and are primarily directed toward the stated priority of the Russian presidency of the G-20: growth through trust and transparency.

The trust and transparency required to promote accountability, sustainability, and growth and to overcome the current serious global economic problems must be consistently encouraged at the international level by G-20 countries.

IFAC believes that G-20 countries should consider directing attention toward at least four specific areas that would inspire greater levels of trust and transparency. They are: the adoption and implementation of globally accepted, high-quality international standards and requirements across all key aspects of the financial sector; improving public sector financial management; ensuring countries cooperate to promote sound and effective taxation arrangements; and enhancing the type and format of information provided by organizations to key decision makers.

### **Adoption and Implementation of Globally Accepted, High-quality International Standards**

IFAC considers it critical for the G-20 to continue its momentum and ambition for regulatory reform and convergence and believes it is imperative for it to support the adoption of globally accepted, high-quality international standards and requirements across all key aspects of the financial sector, in a manner appropriate for each regulated profession or industry. Specifically, in relation to the accountancy profession, IFAC recommends the adoption and implementation of: (i) International Financial Reporting Standards (IFRSs); (ii) International Standards on Auditing (ISAs); and (iii) auditor independence requirements set out in the Code of Ethics for Professional Accountants, issued by International Ethics Standards Board for Accountants (IESBA); across all jurisdictions.

Consistent financial information around the world, which comes from the global adoption and implementation of high-quality standards, assists in facilitating cross-border activity, promoting economic and financial stability, and strengthening transparency and accountability. IFAC notes that IFRSs and ISAs are two sets of standards that have been identified by the Financial Stability Board (FSB), across 12 policy areas, as key for sound financial systems and deserving of timely implementation.

*Global Adoption and Implementation of High-quality Standards*

#### **Recommendation 1 IFAC recommends the adoption and implementation of:**

- ***International Financial Reporting Standards;***
- ***International Standards on Auditing; and***
- ***Auditor independence requirements set out in the Code of Ethics for Professional Accountants, issued by IESBA; across all jurisdictions.***

### **Public Sector Financial Management**

Inadequate public sector financial management arrangements remain a significant threat to global financial stability, which is a cause for major concern for the G-20. In fact, the economic impacts of the



widespread failures of fiscal management in the public sector far exceed the impact of losses incurred by corporate failures in the first decade of this century.

Over several years, IFAC has repeatedly highlighted the deficiencies of many countries' arrangements. The sovereign debt crisis and related government debt issues, potentially affecting many countries around the world and causing instability in the global financial system, have emphasized these deficiencies. Significantly, concerns persist about the ability of governments to meet debt servicing obligations and whether they can maintain current levels and quality of service delivery and meet social benefit program obligations, without raising taxes and contributions or increasing debt to unsustainable levels. Governments' policy decisions often have a significant long-term impact on future inflows and outflows of resources, but often are not appropriately reported and disclosed.

These failures can only be addressed by improving public sector financial reporting—including long-term fiscal sustainability reporting<sup>2</sup>—and transparency and, critically, by examining and updating the institutions for fiscal management that fail to create either the constraints or the incentives for governments to manage their finances in a manner that protects both the public interest and investors in government debt. Institutional reform must focus on a number of important issues: (i) high-quality and timely accrual-based financial reporting; (ii) audited financial statements released within six months of year end; (iii) budgeting, appropriations, and reporting on the same accrual basis; (iv) full transparency in fiscal positions ahead of general elections, ensuring that voting is fully informed; and (v) 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.

IFAC is of the view that:

- urgent and fundamental work is needed to consider the nature of the institutional changes that are required to protect the public and investors in government bonds;
- only through a high-quality, robust, and effective accrual-based financial reporting system can all government assets, liabilities (including debt), commitments, and contingencies be appropriately recorded, reported, and disclosed, and hence effectively monitored; and
- high-quality and timely accrual-based financial reporting in the public sector can be achieved through the adoption of globally-accepted, high-quality reporting standards developed specifically for the public sector, e.g., the International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board (IPSASB)<sup>3</sup>.

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<sup>2</sup> The IPSASB published a Recommended Practice Guideline, [Reporting on the Long-Term Sustainability of an Entity's Finances](#), in July 2013. This guideline provides "guidance on reporting on the long-term sustainability of a public sector entity's finances over a specified time horizon in accordance with stated assumptions on policy and demographic and economic variables."

<sup>3</sup> [www.ifac.org/public-sector](http://www.ifac.org/public-sector)



*Urgent and Fundamental Work is Needed to Determine the Nature of Institutional Change Required in Public Sector Financial Management, Transparency, and Accountability*

**Recommendation 2** *IFAC recommends that the G-20 facilitate urgent and fundamental work, to be conducted or commissioned by the Financial Stability Board (FSB), to consider the nature of institutional changes that are needed in public sector financial management to protect the public and investors in government bonds.*

**Recommendation 3** *IFAC encourages the G-20 to make explicit that the FSB's role encompasses public sector arrangements and to establish 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.*

*There is a Need for High-Quality and Timely Accrual-Based Financial Reporting in the Public Sector*

**Recommendation 4** *IFAC recommends that the G-20 actively encourage and facilitate the adoption of accrual-based accounting by governments and public sector institutions, which promotes greater transparency and accountability in public sector finances, and allows for monitoring of government debt and liabilities for their true economic implications.*

*International Public Sector Accounting Standards should be Adopted and Implemented by Governments*

**Recommendation 5** *IFAC recommends that the G-20 encourage the FSB to include International Public Sector Accounting Standards as a set of standards key for sound financial systems and deserving of timely implementation.*

## **Taxation Systems**

Taxation is a primary instrument of economic policy; it maximizes the resources available for governments to provide public goods and services and promote employment, production, entrepreneurship, and investment. The level of resources obtained by governments is restricted where citizens and organizations do not fulfill their responsibility to pay the amounts of taxation required, especially where arrangements are used that shift profits and taxation obligations to other jurisdictions.

Sound, effective taxation systems are essential for the functioning of modern societies and economies, and ideally should have clear objectives, promote transparency, and where possible, be simple systems. However, the effectiveness of taxation systems may be undermined where taxation outcomes do not reflect the economic substance of transactions or where tax considerations are the primary justification for the initiation of investments or transactions that otherwise would not take place..

While the operation of taxation systems is the responsibility of national governments, IFAC believes that cooperation between countries, for example, through the use of international treaties and information sharing arrangements, are important to promote the right accountabilities and long term global sustainability and growth. IFAC notes 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 to identify actions that will allow governments to collect the tax revenue they need to serve their citizens.

*There is a Need for International Cooperation to Promote Sound and Effective Taxation Arrangements*

**Recommendation 6** *IFAC recommends that by acknowledging the importance of taxation issues and the need for governments to have secure revenue bases, G-20 nations act cooperatively to address issues of base erosion and profit shifting, to ensure:*

- *income is not artificially allocated away from jurisdictions where real economic activity occurs;*
- *investment decisions are not distorted;*
- *economic activity is not artificially reduced; and*
- *the integrity of taxation arrangements is maintained.*

### **Integrated Reporting**

The financial crisis revealed the need for governments and private sector organizations to better understand how their financial and operating decisions impact all areas of society, and to better report information about these decisions to key stakeholders and society. Furthermore, it highlighted the importance of understanding the long-term considerations of decision making, especially in the capital markets.

IFAC believes that the availability of better information that has a longer-term focus will allow key stakeholders to make appropriate decisions that promote sustainability and growth. This better information will be provided through the use of integrated reporting, which “*demonstrates the linkages between an organization’s strategy, governance and financial performance, and the social, environmental and economic context within which it operates.*”<sup>4</sup> Arguably, “*by reinforcing these connections, integrated reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing.*”<sup>5</sup>

The International Integrated Reporting Council (IIRC)<sup>6</sup> was established with a mission to create a globally accepted integrated reporting framework<sup>7</sup> that incorporates financial, environmental, social, and governance information in a clear, concise, consistent, and comparable format. The reporting framework will assist organizations to provide relevant historical and forward-looking information, which aims to meet the needs of a more sustainable, global economy.

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<sup>4</sup> [www.theiirc.org](http://www.theiirc.org)

<sup>5</sup> [www.theiirc.org](http://www.theiirc.org)

<sup>6</sup> The IIRC represents a collaboration of representatives from a cross-section of leaders from the corporate, investment, accounting, securities, regulatory, academic, and standard-setting sectors, as well as civil society.

<sup>7</sup> In April 2013 the IIRC published for consultation a [draft of the International <IR> Framework](#); responses were due in July.



*Enhancing information reported to decision makers*

**Recommendation 7** *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.*

Please contact us should you require further information on any of the recommendations included in this letter. IFAC would welcome the opportunity to participate in, or contribute to, activities that aim to progress these recommendations and to assist the G-20 in achieving its objectives.

Yours sincerely,

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

Fayezul Choudhury  
Chief Executive Officer



**SELECTED RECOMENDATIONS INCLUDED IN IFAC SUBMISSIONS TO THE G-20 IN 2009-2012**

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

- IFAC recommends that the G-20 support the development of an international framework of governance for public sector organizations.
- 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.
- IFAC recommends that G-20 nations develop, implement, and periodically update arrangements that aim to ensure that taxation obligations are properly assessed and collected according to the law.

**Strengthening resourcing and governance arrangements of international regulatory organizations**

- IFAC recommends that the G-20 work to support strengthened resourcing and governance arrangements of international regulatory organizations (including standard setters) that have clearly defined expectations and responsibilities.

**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.

**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.