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The Group of Twenty Leaders  
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By email

**Inclusiveness, Implementation, and Investment for Growth  
Recommendations for the Turkish G-20 Presidency, 2015**

The International Federation of Accountants (IFAC) offers the following recommendations for discussion and endorsement by government leaders at the G-20 Leaders' Summit on November 15-16, 2015. IFAC strongly supports the Turkish G-20 Presidency's focus on inclusiveness, implementation, and investment. The recommendations set out here are intended to complement and aid efforts toward these paramount objectives.

Through its current membership of more than 175 professional accountancy organizations in 130 countries and jurisdictions, IFAC represents approximately 2.8 million accountants in public practice, industry and commerce, government, and education. As such, it aims to provide the perspective of the global accountancy profession.

Central to the Turkish G-20 Presidency priorities is the need for inclusive and robust growth, through collective action. The priorities recognize that "growth is still slow, uneven and not delivering the jobs needed", and that "the potential of our economies has fallen and the inequalities kept rising all over the world". In many G-20 countries and beyond, this situation has intensified throughout 2015.

IFAC believes that good governance and regaining trust in key public and private sector structures, frameworks, and organizational and regulatory arrangements are fundamental to meaningfully addressing these challenges, and achieving the G-20's priority of inclusive and robust growth. It is essential that the most appropriate environment is created, including the right approach to financial regulation, that enables, promotes, and does not restrain or divert attention or resources away from the ability of leaders to demonstrate and enhance the right culture, cultivating trust and confidence in business and government.

A fundamental aspect of good governance is the manner in which it contributes to sound financial management, transparency, and accountability; and a great deal of work remains in many countries, both G-20 and beyond, to address these topics. Most notably, strong financial management in the public sector and a transparent, fair, and effectual international taxation system are critical for a well-functioning global economy, and the confidence and trust needed to achieve robust, inclusive growth.



### ***Good governance and trust***

1. The importance of sound, ethical governance, the behavior and conduct it enables, and the trust and confidence it cultivates, cuts across all sectors—public, private, large, and small. Good governance and genuine trust and confidence, throughout economies and organizations, are indispensable to achieving the Turkish G-20 Presidency priorities of robust, inclusive growth. Specifically, good governance is key to:
  - restoring general public trust and confidence in business, banking, markets, and governments;
  - facilitating high-quality financial and enhanced organizational reporting;
  - combatting money laundering and terrorist financing; and
  - tackling corruption.
2. Having the right culture of ethical behavior, conduct, and conscientiousness is increasingly recognized as crucial in addressing these matters, and when lacking, is seen as an important factor in the failings that lead to and exacerbate problems—culture must be led from the top and ingrained throughout. Compliance-based measures are an important tool, but are no substitute and must be weighed in terms of their benefits and costs to the higher principles of good governance and trust.
3. The international accountancy profession plays a crucial part in governance. Many governance roles worldwide are served and advised by professional accountants, and the reporting, advice, and ethics that are the foundation of the accounting profession are imperative for good governance.
4. International organizations have recognized the importance of a holistic approach to promoting integrity in governance. A number of current initiatives<sup>1</sup> point to implementation gaps between what many legal and policy instruments say about promoting responsible business practices, and how they are implemented, as well as highlighting the limits of detailed, specific regulation and codes, and the need to holistically promote and create an infrastructure which underpins ethics, integrity, and openness in governance.
5. Trust is enhanced through openness and transparency, and disclosure is at the core of accountability. There is demand for more timely and broad, cohesive information relevant for decision making both within organizations and by external stakeholders. Financial information is extremely important in fulfilling this need, but alone it will not suffice. A complete picture of performance, position, and prospects demands information on a broader range of factors material to long term success; for example, human and intellectual capital with a clear explanation of their link to the financial metrics. Good corporate reporting must look forward and not just report past performance. These are all aspects at the heart of integrated reporting (IR), which IFAC strongly supports.

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<sup>1</sup> For example, the Organisation for Economic Co-operation and Development (OECD) *Trust in Business* (TNB) project, the International Organization of Securities Commissions (IOSCO) focus on conduct, including in its codes and public statements, and Financial Stability Board (FSB) public statements and agenda.



6. *IFAC Policy Position Paper 7, [Effective Governance, Risk Management, and Internal Control](#)* details IFAC's view on governance. *The OECD's Principles of Corporate Governance*<sup>2</sup>, recently approved by G-20 Finance Ministers and Deputies, is a further important reference.
7. IFAC makes the following recommendations in regard to good governance and trust.

That the G-20:

**RECOMMENDATION 1:** Clearly recognizes good governance and trust as fundamental to the achievement of the G-20 priorities of robust, inclusive growth.

**RECOMMENDATION 2:** Recognizes the importance of evolving organizational reporting, such as IR, covering the broad range of factors material to long term organizational success and impacts, in a holistic and cohesive way.

### ***The role of globally consistent, good regulation***

8. Globally consistent, good regulation is essential for a fair and effective global economy, and making it work as well as it can is a never ending mission. Significant progress has been made in many aspects of the G-20's financial regulatory work following the financial crisis. Now is an important point at which to consider how the evolving regulatory landscape fits together, how it is impacting higher-level priorities of robust and inclusive growth, and lessons that have been learned and addressed.
9. As noted earlier, it is crucial that the approach to financial regulation enables, promotes, and does not restrain or divert attention and resources away from achieving good governance and trust in the public and private sectors.
10. Response to the financial crisis has involved substantial financial regulation that is new, more extensive, or substantially revised. New structures for communication and dealing with global regulatory issues have also been established. The relentless pace of globalization means that the objective of sustainable growth is more dependent on cross-jurisdictional collaboration than ever before.
11. As recognized in the Turkish G-20 Presidency Priorities for 2015 document, "despite the extraordinary measures taken globally, the recovery after the Great Recession is not as healthy as desired". While there are clearly a range of factors at play, the economic impacts and unintended consequences of post-crisis financial regulation are pertinent to these issues and gaining increasing prominence in global economic discourse.
12. Approximately two-thirds of respondents to the *IFAC Global Regulatory Survey 2015*<sup>3</sup> said regulation is having a significant or very significant impact on their organizations' opportunities to grow and innovate. About four in five respondents reported that the regulation impacting their organizations is

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<sup>2</sup> IFAC has provided input to these principles through its [submission](#), as well as through the Business and Industry Advisory Committee to the OECD.

<sup>3</sup> The IFAC [Global Regulation Survey](#) polled 313 accounting, finance, and business professionals in organizations ranging from small and medium entities to very large entities, operating in a wide range of industry sectors on six continents. The survey was conducted during July and August 2015.



complex or very complex; that it has become more or much more significant over the past five years; and that it has a substantial impact on their organizations' cost of doing business.

13. Possibly significant specific impacts associated with the evolving financial regulatory environment have been identified in developing countries, on small- and medium-sized entity (SME) financing, and on infrastructure financing. IFAC recognizes the activities under the G-20's agenda aiming to address these inclusiveness and investment challenges—for example, the *Global Infrastructure Hub* and *G-20/OECD High Level Principles on SME Financing*. However, it is important to consider more generally the impacts of regulation emanating from other facets of the G-20's work.
14. 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.
15. In accordance with the Turkish G-20 Presidency's emphasis on implementation, there is an urgent need to monitor and address the full, combined impacts of regulatory measures taken in response to the crisis. In particular:
  - **Fragmentation:** Not just where global agreement is not achieved, but also where regulation and reform agreed globally or regionally risks becoming fragmented due to lack of consistent implementation by and consensus between jurisdictions, and where a unilateral national or regional approach to regulation results in extraterritorial effects that threaten to undermine economic growth and stability.
  - **Complexity:** Where the combined impact of regulation creates excessive complexity, possibly impairing efficiency and exacerbating systemic risks, rather than mitigating and elucidating them to promote more resilient financial systems.
  - **Proportionality:** The balance of regulation, recognizing its full impacts on growth and investment, such as where financial regulatory reforms affect liquidity and access to finance for SMEs, infrastructure, and other long-term investments.
16. It is important that the transparency of regulatory activities and the organizations administering and enforcing them keep pace with the extent of regulation and reform. Effective regulator transparency is a prerequisite for the enhanced level of trust and collaboration between market participants, regulators, intermediaries, and professionals demanded by a complex, interconnected financial world and the current pace of change in financial markets and the wider economy.
17. IFAC aims to convene policy makers, regulators, and organizations impacted, and is undertaking research to examine these issues and probe the impacts of the evolving regulatory environment as a major priority. IFAC would be pleased to keep the G-20 apprised of this work and engage with the G-20 on how these efforts can advance the G-20's priorities, in particular inclusive and robust growth.



18. IFAC makes the following recommendations regarding globally consistent, good regulation.

That the G-20:

**RECOMMENDATION 3:** Develops and promotes the adoption of clear principles for high-quality regulation, including the approach to its implementation, which can act as a benchmark against which the performance of regulators can be judged<sup>4</sup>. Such principles include, for example, that regulation:

- has clear objectives in the public interest;
- is proportionate and balanced;
- is evidence based;
- is transparent in its development and execution; and
- is subject to systematic review.

Recognizing the critical importance of transparency, IFAC recommends that the G-20 establishes a dedicated work stream toward the development of enhanced principles for regulator transparency and promotes their adoption.

**RECOMMENDATION 4:** Issues a clear call for 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 (IPSAS).

**RECOMMENDATION 5:** Issues a clear call for significantly improved global consistency in the implementation of financial regulation and globally recognized standards by jurisdictions; including, in particular, recognition of the urgent imperative for consistency in:

- the Basel III and related reforms;
- post-crisis auditing and accounting regulatory reforms;
- adoption and implementation of the compendium of internationally-accepted standards recognized by the Financial Stability Board (FSB) as key for sound financial systems; and
- other post-crisis financial regulatory reforms.

**RECOMMENDATION 6:** Establishes a dedicated work stream monitoring and analysing financial regulatory outcomes, complexity, proportionality, and unintended impacts—in particular where robust, inclusive growth, investment, and infrastructure development are impacted.

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<sup>4</sup> Noting the important reference points of the OECD *Recommendation of the Council on Regulatory Policy and Governance*, and the IOSCO *Objectives and Principles of Securities Regulation*.



***Public sector financial management, transparency, and accountability***

19. Sound financial management, transparency, and accountability rely on good governance and trust. In many countries, inadequate public sector financial management and poor government transparency and accountability remain a significant problem. It can contribute to poor decision making, inappropriate allocation of scarce resources, and even civil unrest.
20. Robust public sector financial management, transparency, and accountability practices include:
  - high-quality, timely, independently audited accrual-based financial reporting for the public sector;
  - published, fully transparent reports on a government's position, performance, budgets, and appropriations to allow for proper scrutiny—particularly ahead of elections; and
  - well-defined, publicly available principles for fiscal management and control, with full transparency to demonstrate that principles are being followed.
21. IFAC has established the [Accountability. Now.](#) campaign, including a global coalition dedicated to the objective of improving transparency and accountability in the public sector, awareness building, developing partnerships, and capacity building at a country level.
22. IFAC makes the following recommendations regarding public sector financial management, transparency, and accountability.

That the G-20:

**RECOMMENDATION 7:** Actively encourages and facilitates the adoption of accrual-based accounting by governments and public sector institutions—ideally using one set of globally recognized public sector accounting standards—IPSAS.

**RECOMMENDATION 8:** 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 9:** In relation to the FSB:

- 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 IPSAS in the compendium of standards it has recognized as key for sound financial systems and deserving of priority implementation.



### ***International taxation***

23. A transparent, fair, and effectual international taxation system is vital to the confidence and trust needed to achieve robust, inclusive growth.
24. Existing taxation systems continue to be challenged and stretched by a globalized, digital context. Addressing these challenges in a collaborative and coordinated way is critical to ensure effectiveness, rebuild and maintain public confidence in the fairness of taxation systems, and avoid a widespread return to issues of double taxation described by the OECD as “global tax chaos”.
25. The extent and pace of work currently being undertaken in the G-20’s international tax stream promises the possibility of major steps forward on many longstanding issues, but also raises acute risks that, if left unmitigated, could result in more complexity, uncertainty, gaps, and divergence.
26. IFAC supports the impetus for the work streams being advanced within the OECD on behalf of the G-20, including the Base Erosion and Profit Shifting (BEPS) Project, and information-sharing initiatives; and commends the delivery of the Final BEPS package in October 2015. The international accountancy profession has sought to contribute to this work through extensive technical input from the outset and is committed to the objective of making BEPS action work for governments, taxpayers, and the public.
27. As recognized in the Turkish G-20 Presidency priorities, the shift from development to implementation is imminent. A strong, top-level mandate for cooperation among G-20 countries and beyond in implementing BEPS actions is essential to ensure their success. This is also vital to mitigate the risks of exacerbating complexity, uncertainty, and divergence. The need for cooperation exists, in particular throughout the negotiation process for the implementation of BEPS, and in the establishment of a properly resourced dispute resolution mechanism.
28. IFAC welcomes the G-20’s emphasis on the importance of inclusiveness in its monitoring of the BEPS project, and highlights the critical importance of developing country perspectives in formulating remaining actions and implementation. Recognizing that this is intended to some extent in BEPS *Action 11, Improving the Analysis of BEPS*, understanding and encompassing economic impacts of BEPS actions, including in advanced and developing countries, is crucial and accords with the G-20’s focus on growth and investment. Potential impacts on investment are substantial, including impacts on cross-border infrastructure investment that is particularly important in developing countries.
29. IFAC makes the following recommendations regarding international taxation.

That the G-20:

**RECOMMENDATION 10:** Issues a strong call for cooperation and inclusiveness in implementing the BEPS project actions.

**RECOMMENDATION 11:** Commences an urgent work stream dedicated to understanding and encompassing the economic impacts of BEPS actions prior to, during, and after implementation.

**RECOMMENDATION 12:** Considers urgently the need for reaching international agreement on a properly resourced dispute resolution mechanism.



Please do not hesitate to contact me 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 further these recommendations and to assist the G-20 in achieving its objectives.

Regards,

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

Faye Choudhury  
Chief Executive Officer