

Mr Jeffrey Lucy AM
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PRESENTATION TO ADB

1 Sri Mulyani Indrawati, Senator the Hon Nick Sherry, Minister for Superannuation and Corporate Law, Distinguished Guests, Ladies & Gentlemen

2 INTERNATIONAL TRENDS IN ACCOUNTING AND AUDIT REGULATION AND WHAT IT MEANS FOR ASIA-OCEANIA

3 SPEECH OUTLINE

- International accounting standards - IFRS
 - Convergence of IFRS with US
 - Asia Oceania Region
 - Implications for global financial regulation

- International Auditing standards
 - Work of IAASB auditing – Clarity project
 - Update on adoption of international auditing standards in major jurisdiction

- G-20 – their interest in Accounting & Auditing
 - 2 April meeting
 - Creation of Financial Stability Board
 - November 2008 beginning of international regulatory involvement

- Regional Responses – an example of cooperative action
 - Creation of the AOSSG

I'll address the G-20 issue first

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GLOBAL RESPONSE TO THE GLOBAL FINANCIAL CRISIS - THE G-20

On 2 April 2009 the G-20 Leaders met in London and considered the developments flowing from the [Leaders Statement](#) of November 2008 (Washington). They issued a [new Statement](#), acknowledging the seriousness of the current economic crisis and in addition added a [declaration on strengthening the global financial system](#). They also formally established the Financial Stability Board, under the auspices of the Bank for International Settlements in Basel to coordinate global regulation of important financial institutions.

Australia regards the G-20 as an organisation with an important role to play – includes major economies from the region excluded from G7; but is small enough to be able to take decisive action.

- G-20 economies: Argentina; **Australia**; Brazil; Canada; **China**; France; Germany; **India**; **Indonesia**; Italy; **Japan**; Mexico; Russia; Saudi Arabia; South Africa; **South Korea**; Turkey; United Kingdom; and the United States of America; and the European Union is the 20th member of the G-20.
 - 6 out of 20 from the region.

Regarding accounting standards they explicitly stated:

We have agreed that the accounting standard setters should improve standards for the valuation of financial instruments based on their liquidity and investors' holding horizons, while reaffirming the framework of fair value accounting.

We also welcome the FSF recommendations on procyclicality that address accounting issues. We have agreed that accounting standard setters should take action by the end of 2009 to:

- reduce the complexity of accounting standards for financial instruments;
- strengthen accounting recognition of loan-loss provisions by incorporating a broader range of credit information;
- improve accounting standards for provisioning, off-balance sheet exposures and valuation uncertainty;
- achieve clarity and consistency in the application of valuation standards internationally, working with supervisors;
- make significant progress towards a single set of high quality global accounting standards; and,
- within the framework of the independent accounting standard setting process, improve involvement of stakeholders, including prudential regulators and emerging markets, through the IASB's constitutional review
- independent standard setter but with public accountability through the Trustees and Monitoring Board

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RESPONSES BY THE FINANCIAL REPORTING COMMUNITY

ACCOUNTING STANDARDS SETTING AND THE IASB

The IASB (International Accounting Standards Board) is an independent standard-setting board, appointed and overseen by a geographically and professionally diverse group of Trustees of the IASC Foundation who are accountable to the public interest.

- It is supported by an external advisory council (SAC) and an interpretations committee (IFRIC) to offer guidance where divergence in practice occurs.
- The Trustees appoint the 14 Board members, who currently come from nine countries and have a variety of functional backgrounds. The new constitution increases to 16 with 4 from our region
- Works with national or domestic standards setters to achieve convergence of standards

The journey to IFRS

- 10 years ago – province of professional bodies - IASC
- 7 years ago – creation of an independent board structure – Sir David Tweedie
- Today – an improved IASB with greater accountability to sovereign governments
- > 100 countries various stages of convergence
 - A road map with the US with SEC comment period open re adoption
 - Our region, China, Japan and India have formal processes for adoption or conversion
- Still many legacy standards not revised under IASB structure
 - E.g. IAS 39 Financial Instruments

IASB RESPONDING TO G-20 AND THE CRISIS – DON'T WASTE A CRISIS

- On 9 April 2009 IASB committed to taking action on each of the items recommended by the G20 by the end of 2009, the target date suggested by the G20,
 - to ensure globally consistent and appropriate responses to the crisis.
 - The IASB had already responded to the financial crisis by starting work reviewing a variety of standards for example a comprehensive package of amendments to IFRS 7 Financial Instruments: Disclosures in September 2008, and proposed improvements in October 2008.

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- IASB work on mark-to-market issues under the fundamental review of IAS 39 Financial Instruments
- there will be changes to the provisioning standards (for losses) to make them more consistent with the new regulatory framework (work with FSB) – dynamic provisioning, incurred model and others
- In November 2008 IASB and FASB announced setting up of Financial Crisis Advisory Group (FCAG) to consider financial reporting issues arising from global economic crisis.
 - Headed by Hans Hoogervorst & Harvey Goldschmid
- Held three roundtables (US, Europe and Asia) on global financial crisis issues
- The Trustees, in their letter to the monitoring board detailing response, emphasised that the call to reduce the complexity of accounting standards for financial instruments
 - Could not be met with further piecemeal changes to standards
 - Instead will prioritise comprehensive project

Turning to the issue of fair value

- Strong support, including at the 3 round tables, for principle of Fair Value,
 - also support that Fair Value has not caused Financial crisis but in recognising diminution of values has had an influence of confidence
- IASB met 22-24 April, considered the recent FASB changes to fair value rules.
 - On 9 April 2009 FASB had [announced](#) a number of piecemeal changes to its application of fair value, which have attracted both praise and criticism.
 - There was some pressure from the EU for the IASB to (again) follow suit with FASB, to retain a level playing field.
- IASB [announced](#) its way forward on these issues on 24 April.
 - It expects to issue a consultative paper by the end of the year.
 - It will work jointly with FASB to pursue a globally accepted replacement of the standards for financial instruments
- The IASB has agreed with the widespread view of commentators that the IASB should improve its impairment requirements. It will do this as part of its comprehensive and urgent review of IAS 39.
- Sir David Tweedie has said:

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We have heard a clear and consistent message on financial instruments accounting – fix this once, fix it comprehensively, and fix it in an urgent and responsible manner. The IASB is committed to do just that by developing proposals within six months for public comment.

Governance and Accountability

The IASB moved quickly to meet the new challenges made apparent by the Global Financial Crisis

- At the Trustees' meeting in New Delhi, India, on 15 and 16 January 2009 the decision was made to enhance the organisation's public accountability by establishing a link to a Monitoring Board of public authorities.
 - The members of the Monitoring Board are the Emerging Markets and Technical Committees of the International Organization of Securities Commissions (IOSCO), Financial Services Agency of Japan (JFSA), and US Securities and Exchange Commission (SEC). The Basel Committee on Banking Supervision participates in the Monitoring Board as an observer. The European Commission is an active participant but has not yet executed the MOU.
 - Through the Monitoring Board, securities regulators that allow or require the use of IFRS in their jurisdictions will be able to more effectively carry out their mandates regarding investor protection, market integrity, and capital formation.
- As stated earlier, the Board itself has been expanded from 14 to 16 to assist geographical representation.
- More appropriate basis of sustainable funding e.g. European Parliament.

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AUDITING STANDARDS SETTING AND THE IAASB

- The [International Auditing and Assurance Standards Board \(IAASB\)](#) serves the public interest by:
 - setting, independently and under its own authority, high quality standards dealing with auditing, review, other assurance, quality control and related services, and
 - facilitating the convergence of national and international standards.
- This contributes to enhanced quality and uniformity of practice in these areas throughout the world, and strengthened public confidence in financial reporting.
- The IAASB comes under IFAC, IFAC is the global organization for the accountancy profession

Evolution of Global Auditing Standards

- Since March 1978, the group, has gained increasing recognition for the quality of its standards and the credibility of its standard-setting process. This has resulted in greater use of its standards worldwide – major international firms use as a basis.
- Over 100 countries are now using or in the process of adopting or incorporating ISAs into their national auditing standards.

Clarity Project

- On 3 March 2009 the IAASB announced it had completed its Clarity Project
 - With the completion of that Clarity Project, the IAASB has issued all its auditing standards in a form designed to enhance the understanding and implementation of them, as well as to facilitate translation.
 - The clarified standards are effective for audits of financial statements for periods beginning on or after December 15, 2009 but subject to each jurisdiction
- The UK Auditing Practices Board (APB) announced its intention to update its auditing standards for the new, clarified, International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB).
 - The new UK and Irish auditing standards will be effective for audits of financial statements for periods ending on or after 15 December 2010.
 - European Commission – cost benefit plus comparison with US – expect support for ISAs
- Similarly the Australian Auditing and Assurance Standards Board (AUASB) is currently revising and redrafting the Australian Auditing Standards (ASAs) – expect to be done 1 January 2010
 - US - Auditing standards adopted prepared by PCAOB

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- Observer on IAASB
- Comment on ISAS when issuing US standards
- Big 4 +

Auditing Standards and the GFC

- 7 April 2009 IFAC endorsed the proposals to enhance global financial regulation and improve the transparency of the international financial system that were issued in the G20 Communiqué.
- The IAASB has issued practice alerts on [going concern](#) and [fair value](#) in response to concerns created by the current economic turmoil.

Audit Regulation

- Clear that there is a global trend to independent Regulation and supervision of auditors
- Major markets considering issues of mutual recognition will not except less – e.g. US, EC (8th Directive) and Japan
- Several jurisdictions with this region have experience and are members of IFIAR and are able to assist – policy, implementation and regulatory limits

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REGIONAL RESPONSE – AN EXAMPLE OF REGIONAL COOPERATION

The Asia Oceania Standards Setters Group (AOSSG) [held a preparatory meeting](#) in Beijing on 17 April. It aims to:

- help coordinate accounting standards setters and strengthen cooperation
- to discuss problems and share experiences in converging to IFRS and make contributions to a high quality global accounting standards
- assist the IASB consider standards from the perspective of those in our region and enhance the accountability of the IASB.

It will meet once or twice a year and will be open to all appropriate bodies in the region.

The preparatory meeting was co-sponsored by:

Brunei Ministry of Finance
China Accounting Standards Committee (CASC)
Indonesia Institute of Accountants (IAI)
Accounting Standards Board of Japan (ASBJ)
Korea Accounting Standards Board (KASB)
Malaysian Accounting Standards Board (MASB)
Financial Reporting Standards Board of New Zealand
Singapore Accounting Standards Council (ASC, Singapore)
Hong Kong Institute of CPAs (HKICPA); and
Committee for the Registry of Auditors and Accountants (CRAC) of Macau.
Australian Accounting Standards Board (AASB)

- First meeting of the AOSSG will be held in Malaysia in November 2009.
 - All the participants of the preparatory meeting welcome all other countries in the region to participate in the AOSSG.

The establishment of the Group was welcomed by the IASB, including Sir David Tweedie.

The IASB needs the input of all those involved in the field across the region to successfully convey a regional message about

- the importance of sound global accounting systems
- an accounting system that is relevant to the needs, skills, abilities and capacities of the region and not necessarily just those involved in the financial sectors of London and New York
- that draws on the depth of accounting system talent in the region.
- IFRS Policy meeting (3rd – Beijing)

In my view it is important that the IASB hear a clear message from the region given its significant and increasing importance in the world economy. This also corresponds with a significant and increasing importance in financial reporting; to as a region that is a major supplier of much of the funds to world capital markets, and an increased focus of financial reporting in our own region.

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For the main economies in the Asia-Oceania region with substantial involvement in international accounting and auditing organisations, their share of world GDP has risen from under 27 per cent in 2004, to an estimated 30 per cent this year, and is expected to rise to almost 34 percent by 2014.

Despite the increasing importance of the region it is clear that currently the Europeans, particularly through their regional lobbying group (EFRAG), and the United States (FASB) have the most influence on new policies emanating from the IASB.

Similarly policy formulators from our region organised the third IFRS Regional Policy Forum which recently met in Beijing, and will meet next in Singapore in 2010. 9 Jurisdictions from our region participated in this Policy Forum.

In this environment of steadily growing regional cooperation it is crucial that standards setters, and those thinking of establishing standards setting bodies in the region get on board now and contribute to the AOSSG meeting in November.

CLOSING

So in closing the benefits of reliable and understandable audited financial accounts to the global financial markets are of fundamental value.

- affects cost of capital at Country and Industry levels
- Influences confidence of Westerners, lenders and regulators
- affects capital flows

Global best practice in Accounting and Auditing as well as their independent regulation is becoming clearer

Challenges

- Join the journey to best global practice in a way
 - can influence
 - retains the confidence of the global capital markets