Regulatory and institutional foundations for high-quality corporate reporting

Presented by

Mike Walsh
Special Projects Consultant, Association of Chartered and Certified Accountants

This material has been reproduced in the language and form as it was provided. The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
REGULATION AND INSTITUTIONS

Mike Walsh – Special Projects Consultant
Association of Chartered Certified Accountants
ACCA

ISAR 29, 1 November 2012
SCOPE

• ACCA’s involvement and peer review

• Needs of emerging capital markets in relation to regulation and institutions
ACCA’s INVOLVEMENT

• ACCA was pleased to provide some of the finance and logistics for the peer reviews

• I was one of the peer reviewers for four of the pilot tests.
FULL AND MODIFIED IFRS

- Although some countries and regions have adopted IFRS it is common to find countries have modified IFRS and issued local guidance as well.

- This is leading to convergence with IFRS rather than full compliance.

- I suggest the questionnaire should distinguish between full IFRS and modified or convergent IFRS.

- I quite understand that full IFRS is desirable to ensure comparability across countries but convergence on IFRS can also help to raise the quality of financial reporting.
The situation within countries is always unique. They have different:

- Histories
- Institutional structures
- Market and business models
- Cultural, political, social and economic traditions
- Different Ministries will have developed different standards for the sector they deal with
- Tax regulations are always national.
DIFFERENT TYPES OF ENTITIES

Harmonising all these variables on a model set by outside standard setters is a challenge to say the least.

I do think the adoption of standards should distinguish between different types of entities e.g.:

• Listed and public interest entities which probably have outside shareholders

• Small and medium sized entities which probably do not have outside shareholders and

• Micro enterprises which are probably owner managed.
ACCOUNTING STANDARDS and AUDIT

• The type of standards adopted should be proportionate to the type of entities involved. UNCTAD has published guidance for each of the above.

• Likewise audit and filing requirements may be adjusted to the type of entities involved e.g. full audit, independent review or no audit at all.
GROWTH OF CAPITAL MARKETS

• Capital markets promote economic development and growth by allowing firms to tap large, international pools of savings to obtain the finance they need.

• In order to do so in a sustainable fashion they rely on institutions that ensure reliable financial reporting and assurance

• IFRS and ISA provide high quality, comparable standards

• These in turn depend on the skills and competence of professional accountants.
EMERGING CAPITAL MARKETS

• It is no secret by now that emerging economies will dominate global economic growth in the future.

• But whether they will have access to adequate finance to fulfil their potential is by no means guaranteed.
ACCA has written a report entitled *The Rise of Capital Markets in Emerging and Frontier Economies* which concludes quite firmly that in emerging and frontier economies there is no room for relaxing disclosure and assurance requirements.

It asks the question *How can we get capital markets to work for emerging and frontier economies?*
Making capital markets work means ensuring that:

- Standards of reporting and assurance are strong enough to inspire confidence

- Market participants understand the risks they are taking and their responsibilities to one another and yet believe these to be justified by the returns available
• Capital market activity is self-sustaining; markets are liquid and don’t rely too much on ‘hot money’ that can evaporate overnight.

• Governments think on a global basis and learn the lessons from successes and failures in neighbouring countries as well as other regions.
THE FUTURE OF CAPITAL MARKETS IN EMERGING ECONOMIES

• Getting the basics right is not enough for very long.

• Developing capital markets require increasingly transparent governance and ethical business conduct to encourage investor confidence.
As businesses and governments in the emerging markets align themselves to:

- Sustainable growth
- Environmental
- Social and
- Governance reporting

Are all likely to become part of a broadening landscape of disclosure.
FURTHER RESEARCH

Further research will show:

• High quality financial reporting standards are helpful but not enough

• Entities seeking international finance are more likely to find IFRS useful than entities which rely more on domestic finance
FURTHER RESEARCH

• Standards need to be backed up by credible regulation and monitoring

• The reputation of stock exchanges and regulators are themselves contributors to the value of the investments which they are responsible for.
CONCLUSIONS

• In conclusion, I would say the ISAR capacity building model is very useful as a self assessment tool starting with the present situation in any particular country and leading to a consensus on what to do next which fits in with that country’s needs.

• Comparisons with other countries are interesting and can point out issues which need addressing but I don’t see that this should become a competitive exercise.