
**Intergovernmental Working Group of Experts on
International
Standards of Accounting and Reporting
(ISAR)**

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Afternoon Session

**Regulatory and institutional foundations for high-
quality corporate reporting**

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REGULATION AND INSTITUTIONS

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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.**

NATIONAL TRADITIONS

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 share holders 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.**

THE RISE OF CAPITAL MARKETS

www.accaglobal.com/en/research-insights.html

- 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 1

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**

MAKING CAPITAL MARKETS WORK 2

- **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.**

DISCLOSURE

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.**

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