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

**29<sup>th</sup> SESSION**

31 October – 2 November 2012  
Room XIX, Palais des Nations, Geneva

Wednesday, 31 October 2012  
Morning Session

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

Presented by

Gerald Edwards

Senior Advisor Accounting & Auditing Policy, Financial Stability Board

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# **Financial Stability Board**

## ***Key financial reporting initiatives***

### **UNCTAD ISAR Conference**

Geneva, Switzerland

31 October 2012

### **Jerry Edwards**

Senior Advisor on Accounting and Auditing Policy

Financial Stability Board



# Presentation Topics

- **Background on the FSB**
  - The FSB's membership and mission; G20 request for FSB implementation monitoring and support for FSB accounting recommendations
- **FSB risk disclosure initiative**
  - Calls for enhanced risk disclosures, and international dialogue in connection with the unique private sector Enhanced Disclosure Task Force
- **FSB monitoring of IASB-FASB convergence progress**
  - Progress; but overcome certain challenges





# Financial Stability Board

*Established in April 2009 with G20 Leaders' support*



- **Comprised of (G20 & others):**
  - National & international regulatory authorities (eg, *finance ministries, central banks & securities authorities* in 24 key centers + EC; BCBS, IOSCO, IAIS)
  - International financial institutions (BIS, IMF, WB, OECD); ECB; key central bank expert groups (CGFS, CPSS); **IASB**
- **Seeks to assess & mitigate risks to financial stability; coordinate key financial regulatory policies & reforms; & monitor implementation**
- **Reports requested by the G20 Leaders**
- **Activities include support for sound international accounting & auditing**





# Transition from FSF to FSB

- In November 2008, the Leaders of the G20 countries called for a larger membership of the FSF. A broad consensus emerged toward this goal.
- As announced in the G20 Leaders Summit of April 2009, the expanded FSF was re-established as the Financial Stability Board (FSB) with a broadened mandate to promote financial stability.
- G20 Leaders *welcomed the FSF's procyclicality report's accounting recommendations & requested action by standards setters; requested accounting standard setters to work with supervisors on improved provisioning and valuation standards; and encouraged more urgent convergence activities.*
- The G20 requested that the FSB monitor implementation progress, *including on accounting.*





# FSB Work Program – 2011-2012



- **FSB Chairman (2011 – present):  
Mark Carney, Governor, Bank of  
Canada**



**Svein Andresen,  
Secretary General**

- **Implementation**
  - Basel III (BCBS)
  - Resolution
  - Compensation
- **Continuing policy  
development**
  - Extension of SIFI framework
  - Shadow banking
  - OTC derivatives markets
  - Data initiatives (including  
LEIs), risk governance review
  - Risk disclosure, accounting and  
external audit



# Early work on transparency:

## *G7 Request to the FSF*



- **G7 request to FSF in 2007 to address the market turmoil included valuation & accounting as key topics**
  - FSF WG on Market & Institutional Resilience formed; IASB was a member
- **FSF report to G7 in April 2008 was a “spark” that encouraged actions in key areas, e.g., capital, disclosure, accounting reforms**
- **The turmoil highlighted the importance to market confidence of reliable valuations & useful disclosures about risks**





# FSB Roundtable on Risk Disclosure

*Basel, Switzerland, December 2011*

- Followed FSB review & involved leading financial institutions, investors, analysts, CRAs, auditors, supervisors, regulators & key standard setters
- Candid dialogue about risk disclosure standards & practices, needed enhancements:
  - Risk governance & risk management strategies
  - Prioritized, summarized, relevant disclosure
    - *Credit risk*
    - *Liquidity risk*
    - *Capital adequacy & risk-weighted assets (RWAs)*
    - *Pillar 3 disclosures that are more integrated with financial reporting disclosures*
    - *Scenario & sensitivity analyses*
  - Encouraged the FSB to facilitate work by private sector to enhance risk disclosure practices
- **IFRS 7 & US SEC's MD&A principles provide a helpful foundation for improving practices**







# Formation of the Enhanced Disclosure Task Force (EDTF)

- **After discussions with the FSB Plenary, the FSB:**
  - Issued a press release on risk disclosure next steps – 20 March 2012, including Roundtable summary
  - Issued a press release on the formation of the EDTF - 10 May 2012
- **Three EDTF Co-Chairs:**
  - **Hugo Bänziger**, former CRO and Member of the Management Board, Deutsche Bank
  - **Russell Picot**, Group General Manager and Group Chief Accounting Officer, HSBC Holdings plc,
  - **Christian Stracke**, Managing Director, Member of Investment Committee, and Global Head of Credit Research Group, PIMCO
- **Outreach took place with standard setters, regulators & prudential authorities – for example:**
  - IOSCO, BCBS, IASB, FASB, IAASB, IFIAR, PCAOB, EC, SEC, etc.



# Enhanced Disclosure Task Force

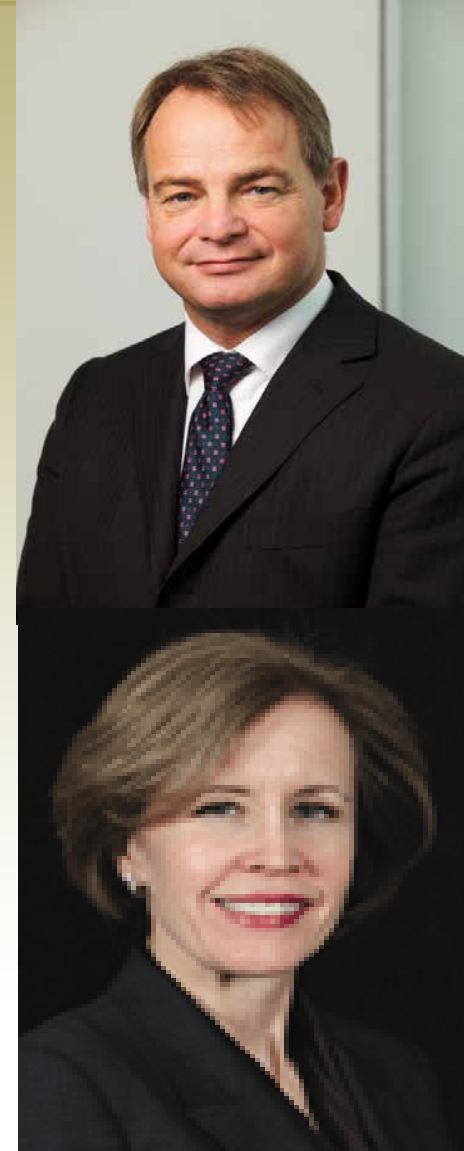
- **Joint private sector initiative** - comprised of senior experts from financial institutions (CROs, CFOs & chief accounting officials), investors & analysts, CRAs, & Big 4 audit firms
- **Asked by the FSB to:**
  - To develop principles for enhanced disclosures, based on current market conditions and risks, including ways to enhance the comparability of disclosures, and
  - To identify leading practice risk disclosures presented in annual reports for end-year 2011 based on broad risk areas such as those identified in the summary of the first FSB roundtable on risk disclosures (December 2011).
- **Target - report recommendations to the FSB in October** (which would be published) – publication on 29 October; welcomed by FSB
- **Seeks to enhance risk disclosure practices** beginning with certain aspects in end-2012 annual reports, with fuller implementation in 2013 and beyond; *uniquely designed for growing voluntary implementation*



# Improve Market Discipline & Transparency

## *IASB-FASB Convergence Efforts*

- **FSB reports to the G20 on the Boards' efforts**
- **Significant progress achieved so far**
  - Amortized cost instead of FV accounting for loans
  - Both Boards are seeking to develop a true expected loss approach for impairment
  - Improved consolidation standards & disclosures for SPEs are in place
  - Converged FV measurement standards, including valuation adjustments to avoid overstatement of income on illiquid instruments
  - Avoided off-balance sheet treatment for repos (as proposed by IASB)
  - Improved risk disclosures (albeit not all are converged)
- **Certain challenges remain in key areas**
  - E.g., impairment/"provisioning"; netting; hedge accounting; *consistent implementation of standards*







# Improve Transparency & Market Discipline

## *Accounting (continued)*

- **FSB call for renewed effort to converge on impairment**
  - *FSB Plenary press release (11 October 2012)*: “The FSB also discussed the state of progress in achieving convergence of the standards of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB). They recognised the progress made by the IASB and FASB on convergence in the classification and measurement of financial instruments. However, the FSB noted the absence of convergence on a standard for impairment of loans and urged renewed progress to converge on an improved standard, with provisioning based on expected losses.”



# Conclusion & more information

- **FSB supports high quality, independent standard setting; convergence to improved standards; & *improved practices***
- **FSB encourages IASB's enhanced technical dialogue (e.g., with BCBS, IOSCO, FSB & other stakeholders)**
- **FSB press releases – e.g., recent FSB Plenary meeting (Oct. 11); on EDTF (March 20, May 10; Oct. 29) & external audit initiatives (March 15) – see [www.financialstabilityboard.org](http://www.financialstabilityboard.org)**
- **Article on FSB Transparency Initiatives in Bank of Spain's financial stability journal (May 2012) – see: [www.bde.es/f/webbde/GAP/Secciones/Publicaciones/InformesBoletinesRevistas/RevistaEstabilidadFinanciera/12/May/Fic/ref2012223.pdf](http://www.bde.es/f/webbde/GAP/Secciones/Publicaciones/InformesBoletinesRevistas/RevistaEstabilidadFinanciera/12/May/Fic/ref2012223.pdf)**



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