

EBA/IFAC Joint Conference

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Leading in a Time of Change

A. Introduction

Good afternoon. I am delighted to be here in Tallinn and want to thank you, Toomas Vapper, Chairman of the Management Board, in particular, for organizing this event, five years after the Estonian Board of Auditors became a full member of IFAC. I'm going to take some time today to update you on IFAC's efforts to influence the G20 Leaders in dealing with the global financial crisis, and give a brief look at the direction for the future.

In the less than 20 years since Estonia regained its independence, the country has undergone a miraculous transformation, becoming one of the world's fastest growing economies--until confronted by the leading edge of the financial crisis. Unfortunately, Estonia learned very quickly that there was nowhere to hide from it and was one of the hardest hit in the European Union by the economic downturn.

The good news, I believe, is that we probably have seen the worst of the crisis and that it has taught us some timely lessons. Specifically, it has shown the world that we are all a part of a global economic community—and that is why the solutions needed to address the crisis are ones that we

work out together on a global level, and require the accountancy profession to respond with a global voice. As the economies of the world dig their way out of the financial morass of the last few years, IFAC is ready to speak out on behalf of its 157 member bodies to protect the public interest. Indeed, we have already begun raising our voice.

B. Response to the G20, April 2009

IFAC's first response to the work of the G20 was a set of recommendations to the working groups that convened before their April 2009 meeting in London. The outcome of the summit proved to us that the G20 objectives are consistent with many of our own, such as:

1. Implementing the Financial Stability Board's (formerly, the Financial Stability Forum) 12 key International Standards and Codes (which include International Standards on Auditing)
2. Significant progress toward a single set of high-quality global accounting standards
3. Improvements in the international regulatory framework
4. Strengthening the roles of the International Monetary Fund and the World Bank

But our recommendations went further:

1. Strengthening of the International Monetary Fund's *Code of Good Practices on Fiscal Transparency* through the global adoption of IPSASs
2. Establishment of well-governed professional accountancy bodies in countries where they do not currently exist
3. Continued support for the World Bank's Reports on Observance of Standards and Codes (ROSC) initiative
4. Establishment of an international, principles-based threshold of competencies for senior financial officers in public interest entities

5. Ensuring that the G20 actions are supportive of the small business sector

Our credentials to speak out on these issues come from:

1. Our ongoing dialogue with our 157 members around the world, which gives us a greater grasp of what is needed by them and their jurisdictions
2. Our close working relationships with the World Bank, the International Monetary Fund and Development banks which helps us understand their messages
3. The work of our membership and committees, which underlines the importance of SMEs and micro-entities

Most importantly, perhaps:

1. We believe the accountancy profession will have a vital role to play moving forward, especially if we assert our voice in areas where we have acknowledged expertise.

C. The IFAC G20 Accountancy Summit, July 2009

On July 23 and 24, in London, we convened an extraordinary meeting of IFAC's member bodies from the G20 countries, with 60 leading professionals attending.

- A. To reach consensus on issues relating to accounting, auditing, ethics, transparency, and governance
- B. To make recommendations to the G20 Leaders before the September summit that would add substance to their work.

- C. Participants agreed unanimously that the public interest would best be served by:
- i. A single set of high-quality, principles-based financial reporting and auditing standards for listed and public interest entities
 - ii. Establishing roadmaps on a national basis for adoption and implementation of IFRS and ISAs
 - iii. Adopting IPSASs, for governments to provide clear and transparent reporting to taxpayers and capital markets
 - iv. Needs of SMEs must be considered
 1. As engines of global growth
 2. In developing standards and in any re-regulation-for threats of overburden
2. World Bank's Chief Financial Management Officer Tony Hegarty addressed the group:
- A. About urgency of building and strengthening profession in developing and emerging economies for financial stability
 - B. Announcing a World Bank/IFAC initiative to deepen cooperation in this area
 - C. Called for the G20 to support this initiative to build sustainable accountancy profession

D. Communiqué to G20 Before Pittsburgh

Within a week of our G20 Accountancy Summit, we issued a forceful, and straight-forward set of recommendations for the G20 to consider.

1. We called for broad action by G20 to play an essential role in resolving the current crisis
 - a. To act quickly to build a reformed international financial system
 - b. To encourage adoption and implementation of global accounting, auditing, and auditor independence standards
 - i. Level the playing field
 - c. To improve the ability of capital markets to work globally
 - d. These issues are not new or surprising but need to be reiterated, especially by the global accountancy profession.
2. Seeking global convergence in corporate governance standards
 - a. Support global convergence to best practices in the Organization for Economic Co-operation and Development's (OECD) corporate governance principles.
 - b. OECD's framework
 - i. designed to promote transparent and effective markets
 - ii. focuses on the roles and rights of stakeholders, the responsibilities of management and the board of directors, and other parts of the corporate governance structure.

- c. OECD requires member states to make best efforts to comply with guidelines and best practices.
 - i. IFAC's international governance good practice guide is consistent with the OECD framework.
- 3. Asking for worldwide backing for use of IPSASs
 - a. To greatly improve government transparency and accountability
 - b. Needed in light of takeovers, lending, guarantees, and bailouts
- 4. Urging further steps to enhance governance of the IASB
 - a. Legitimacy
 - b. Ability to act independently, without interference

E. The Result of the G20 Meeting in Pittsburgh, PA

What will happen in Pittsburgh? We can only assume that the G20 will consider the matters before them and come up with prudent answers that are responsive to the issues. In its actions, IFAC has proven its value:

1. We have spoken out for our constituency on issues that serve the public interest
 - a. In one voice
 - b. With authority
2. We have brought up issues
 - a. That broaden the discussion
 - b. That show our expertise

F. Conclusion

As I conclude my remarks, let me remind you of a few points that I have made this morning.

1. G20 leaders must:
 - a. Act quickly to build a reformed international financial system
 - b. Back adoption of international standards to help address these issues
 - c. Play an essential role in resolving the current crisis
2. Remember that SMEs are engine of global economy
 - a. Address their unique needs
 - b. Must address costs and complexities that impose burdens on, and threaten sector's sustainability
3. Support the long-term strengthening of the accountancy profession in developing countries

4. Recommend enhanced corporate governance

Now that economic recovery appears to have started in Europe and the U.S.--though not as well as in China—I trust that your country will return to the road to prosperity before too long. Estonia has already shown its willingness and/or ability to follow many of the recommendations that IFAC has made to the G20, regarding adoption and implementation of international standards in auditing, accounting, public sector accounting, and ethics. Clearly, it can have a bright future ahead of it when the time is right.

I wish you the best of luck in qualifying for euro adoption in the months ahead, which will certainly lift investor confidence in a growing economy like yours. While some of the larger countries around you are beginning to recover in a meaningful way—and even your own financial position is better in the second quarter than it was in the first—actions by the G20, and the work of your country’s solid accountancy profession, can certainly help Estonia get back on the path to solid growth.

Thank you for allowing me to speak with you today.

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