IFAC POLICY POSITION 6
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International Federation of Accountants

GLOBAL REGULATORY CONVERGENCE AND THE ACCOUNTANCY PROFESSION

Global regulatory convergence is an essential element of the globalization of capital and debt markets, and is important in promoting the comparability of financial information, minimizing the effects of systemic economic risks, and helping to create a level playing field for international competition. For the accountancy profession, regulatory convergence includes the globally consistent adoption and implementation of high-quality internationally accepted financial reporting, auditing, assurance, and auditor independence standards.

Introduction

Global regulatory convergence is critical for the evolution of a sound, global financial system.[1] To embrace the benefits and manage the risks of belonging to a global economy, nations need to consider the importance of consistent principles, measurements, and reporting with respect to financial information used in decision making. Global regulatory convergence means achieving a leveling of standards to universal "best-in-practice" quality, creating a level playing field for international competition, and embracing consistent and appropriate regulatory arrangements for globally important and increasingly interconnected industries.

Achieving global regulatory convergence may assist in providing solutions to problems highlighted by the global financial crisis, and contribute to greater economic certainty and financial stability. It requires the support of a broad range of key stakeholders—for example, politicians, governments, regulatory bodies, and professional accounting organizations—at the national and international levels.

The Public Interest

IFAC considers the public interest is best served where there is consistent adoption and implementation of high-quality, internationally accepted standards in the preparation and presentation of financial information for capital and debt (private and public sector debt) markets. Among many things, this contributes to promoting the comparability of financial information, minimizing the effects of systemic economic risks, and helping to create a level playing field for international competition.

While global regulatory convergence provides numerous public interest benefits, IFAC recognizes that when developing and adopting international standards, consideration must be given to the diversity of entities and sectors operating within any economic environment. This means that a "one-size-fits-all" regulatory approach may not always be suitable in all jurisdictions and that, for example, regulatory

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[1] Although this paper discusses global regulatory convergence in the context of the accountancy profession only, IFAC supports global regulatory convergence on a broader scale. As part of the Private Sector Taskforce of Regulated Professions and Industries (PSTF), IFAC is a proponent of regulatory convergence in financial professions and industries to facilitate economic stability in the world's capital markets—refer *Private Sector Taskforce of Regulated Professions and Industries - Final Report to G-20 Deputies September 2011*.

reforms introduced primarily for large multi-national companies may not be appropriate for small- and medium-sized entities (SMEs). While the adoption of one set of international standards across all sectors can be achieved in some areas—for example, auditing[2]—for other areas, such as financial reporting, a differential approach has been developed.[3]

The Accountancy Profession

For the accountancy profession, global regulatory convergence includes:

- The development of high-quality, internationally accepted standards, issued by global standard setters using shared private sector/public sector standard-setting arrangements;[4]
- The consistent adoption and implementation of such standards by national bodies (e.g., governments, institutions, and regulatory organizations), recognizing that the legal environments in some jurisdictions may necessitate modifications; and
- The establishment of regulatory arrangements that are globally consistent,[5] where appropriate, and are based on cooperation and mutual recognition.

IFAC considers that there should be globally consistent adoption and implementation of financial reporting, auditing, assurance, public sector accounting, accounting education and ethics standards—including independence requirements for auditors.[6]

Benefits of Global Regulatory Convergence

There are numerous benefits to be derived from global regulatory convergence for the accountancy profession; most notably with respect to the efficient and effective functioning and stability of global capital and debt markets. Global regulatory convergence contributes to:

- *Improving the comparability of financial information*—Consistent financial reporting and auditing arrangements across borders heightens the relevance of financial data in the global context, increases potential mobility of capital across national borders, and provides decision makers (investors, financial institutions, credit rating agencies, governments, regulators, citizenry) with consistently high-quality, reliable information with which to make more informed investment, resource, and policy decisions.
- *Reducing the effects of systemic risks*—Global convergence contributes to minimizing uncertainties, and reducing the threats of behaviors such as investor over-confidence, extreme risk-aversion, and/or irrational behavior that can arise. Uncertainty and the behaviors it encourages

[2] IFAC considers that it is in the public interest that users of audited financial statements have confidence that audits of entities, whether small or large, simple or complex, have been performed to the same high standards. ISAs are designed for audits of entities of all sizes, and their design enables them to be applied in a manner proportionate to the size and complexity of an entity—refer Policy Position Paper 2, *A Single Set of Auditing Standards: Audits of Small- and Medium-Sized Entities*.

[3] The International Accounting Standards Board (IASB) issues International Financial Reporting Standards (IFRS) for use by publicly accountable entities, as well as IFRS for SMEs for use by SMEs.

[4] Refer IFAC Policy Position Paper 3, *International Standard Setting in the Public Interest* for a description of shared private sector/public sector standard-setting arrangements.

[5] These arrangements include, but are not limited to, auditor registration and licensing requirements, the public oversight of auditors of public interest entities, and arrangements that promote greater cross-border trade-in-services.

[6] The independence requirements for audit and review engagements are outlined in Section 290 of the *Code of Ethics for Professional Accountants*, issued by the International Ethics Standards Board for Accountants (IESBA).

potentially heighten systemic risks in globally interconnected markets and sectors (e.g., banking, securities, and insurance), especially where they are not properly identified and mitigated.

- *Reducing information costs*—The consistent adoption and implementation of high-quality internationally accepted standards across the globe means that multinational companies will not have to prepare financial reports in different countries, according to different standards and requirements. The costs to companies of preparing financial reports in multiple jurisdictions will be reduced, as one accounting framework/system can be used by companies globally, and greater expertise can be developed internally.
- *Decreasing opportunities for regulatory arbitrage*—Global regulatory convergence aims to limit the differences in financial reporting and auditing requirements between jurisdictions, and hence limit the opportunity for companies to benefit from "regulatory arbitrage." That is, where differences exist in the regulatory framework between jurisdictions, companies may—depending upon companies' risk strategies—be attracted to those countries which have less stringent regulatory regimes and fewer compliance costs. It also minimizes the potential for a regulatory "race to the bottom" on the part of governments and regulators, in efforts to attract companies to their markets.
- *Providing an underpinning for a global regulatory system*—The global financial and sovereign debt crises have highlighted the important need for nations—and international cooperative arrangements, such as the G-20—to develop global solutions to address global issues. Regulatory convergence is a means by which to facilitate intergovernmental cooperation, greater institutional linkages, and international policy integration.
- *Providing additional benefits for developing and emerging economies*—Countries with developing and emerging economies that are looking to establish a robust framework of standards and regulatory arrangements, and may not always be in a position to develop their own high-quality standards, benefit from being able to adopt and implement high-quality, internationally accepted standards that have been developed and issued by internationally recognized standard setters.

Impediments and Challenges

There are several challenges and impediments to achieving global regulatory convergence. Overcoming these challenges requires:

- The *consistent adoption and implementation of standards* that provides for limited modifications, based on the need to address legal requirements within the local environment. The addition of more stringent requirements ("gold-plating"), and "carve-outs" from the standards, should be discouraged. It is important that those people relying on the financial information being reported have a clear understanding of the basis of preparation.
- *Continued momentum to seek global outcomes*—Governments and politicians must be encouraged to continue to strive for global solutions. Progress toward global solutions risks being derailed: (i) by inconsistent and/or unilateral decision making, including reforms that have extra-territorial impacts; and (ii) by politicians taking a national—rather than global—view of critical economic issues. This has the potential to promote greater uncertainty and create opportunities for regulatory arbitrage.
- *Appropriate arrangements for international bodies*—Arrangements must be established to ensure that international regulatory organizations that have key responsibilities in the global environment (e.g., the Financial Stability Board [FSB], the International Organization of Securities Commissions

[IOSCO], and international standard setters) function effectively.[7] They must: (i) have clearly defined mandates; (ii) be adequately resourced and have necessary capacity; and (iii) strive for international cooperation and coordination, including the establishment of consistent regulatory arrangements across all nations, where possible, as well as mutual recognition of robust regulatory arrangements between jurisdictions (e.g., for matters such as oversight and inspection of auditors of public interest entities.)

- Recognition that countries are at *different stages of development*—
    - Regulatory arrangements that are appropriate for developed economies and mature markets may need to be modified, or introduced according to a different timeline, for developing and emerging markets. Furthermore, the assistance required—in terms of resources, training, skills, and expertise—may be greater for developing and emerging nations. For the adoption and implementation of standards, this includes relevant implementation guidance and other tools.
    - In developed economies and mature markets, there are potentially many impediments that make global regulatory convergence difficult to achieve. These stem from a number of areas, including the legal and regulatory environment, contractual requirements, and enforcement arrangements. Costs associated with changing existing laws, and entrenched systems and arrangements, may be substantial but need to be considered in light of the longer-term benefits of global consistency and outcomes. Furthermore, it suggests that complete one-time convergence may not be possible in all jurisdictions and that a staged approach over a longer period of time might be necessary.[8]

The Role and Work of IFAC

IFAC aims to promote and advance the global regulatory convergence agenda in several ways. As well as through its global outreach activities, IFAC promotes global regulatory convergence through:

- The development of high-quality, internationally accepted standards by independent standard-setting boards;
- Its member body compliance program; and
- Its adoption and implementation support activities.

High-Quality, Internationally-Accepted Standards

IFAC supports global regulatory convergence for the accountancy profession, specifically with respect to the development, adoption, and implementation of high-quality international standards issued by five standard-setting boards.

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7 This includes international bodies representing regulators, as well as public and private sector standard setters.

8 For example, in promoting the need for one set of globally accepted, high-quality international financial reporting standards, the G-20 recognized the need for the IASB and the Financial Accounting Standards Board (FASB) in the US to move toward convergence of standards over a period of time, initially establishing a deadline of 2011, which was then changed to 2013.

Standards issued by standard-setting boards, whose structures and processes supporting their operations are facilitated by IFAC:

- *International Standards on Auditing (ISAs)*—issued by the International Auditing and Assurance Standards Board (IAASB); outline the independent auditor's responsibilities when conducting an audit of financial statements[9]
- *Other Assurance and Related Services Standards*[10]—issued by the IAASB
- *The Code of Ethics for Professional Accountants*—issued by the International Ethics Standards Board for Accountants (IESBA); establishes ethical requirements for professional accountants, including independence requirements for auditors
- *International Public Sector Accounting Standards (IPSASs)*—a set of accounting standards issued by the International Public Sector Accounting Standards Board (IPSASB) for use by governments and public sector entities
- *International Education Standards (IESs)*—standards issued by the International Accounting Education Standards Board (IAESB) for the learning and development of professional accountants for use by professional accountancy organizations, regulators, employers, academics, and students

Standards issued by the IASB, whose structures and processes supporting its operations are facilitated by the IFRS Foundation:

- *International Financial Reporting Standards (IFRSs)*—a set of requirements issued by the IASB that contain principles and accompanying guidance in regard to financial reporting

The FSB lists IFRSs and ISAs in its *Compendium of Standards*,[11] which are designated as deserving of priority implementation; IOSCO has endorsed the clarified ISAs; while the European Commission proposes the use of ISAs for audits conducted in EU Member States. IPSASs are used by many countries and organizations, including various divisions of the United Nations and the North Atlantic Treaty Organization (NATO).

Member Body Compliance Program

IFAC's Member Body Compliance Program requires IFAC's members and associates to support its mission and demonstrate compliance with the seven Statements of Membership Obligations (SMOs). The SMOs outline the requirements regarding the adoption and implementation of ISAs, IFRSs, the *Code of Ethics for Professional Accountants*, IPSASs, and IESs.[12] The SMOs specify that IFAC members and associates should use their best endeavors to incorporate these standards into their national standards or related other pronouncements, or where responsibility for the development of national standards or related other pronouncements lies with third parties, to persuade those responsible to incorporate the

[9] The IAASB also issues International Standard on Quality Control (ISQC) 1, *Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Service Engagements*, which outlines key quality control arrangements for audit firms conducting audits of financial statements and which IFAC considers should be consistently adopted and implemented globally.

[10] The IAASB issues International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), and International Standards on Related Services (ISRSs).

[11] The *Compendium of Standards* lists twelve economic and financial standards that are internationally accepted as important for sound, stable, and well-functioning financial systems.

[12] Refer *SMOs* issued by IFAC.

standards into their national standards or other related pronouncements/standards. The SMOs also establish requirements for the monitoring and enforcement of professional standards.

Adoption and Implementation Support

IFAC plays an important role as a driver and facilitator of the adoption and implementation of standards. A primary objective of IFAC is to ensure that standards developed by the independent standard-setting boards are widely adopted and implemented, and enable accountants worldwide to provide services of consistently high quality in the public interest. IFAC encourages and facilitates collaboration among professional accountancy organizations, regulators, firms, practitioners, the donor community, and other stakeholders to achieve this goal. Also, in meeting this objective, implementation guidance and tools are developed and issued by the independent standard-setting boards and IFAC committees.[13]

Implications for IFAC Members and Associates

IFAC's member bodies and associates have important roles to play in advancing global regulatory convergence in the accountancy profession:

- By complying with SMOs and as such, advancing the adoption and implementation of high-quality, internationally accepted standards;
- In fulfilling the role of national standard setter—in some jurisdictions—and adopting high-quality, internationally accepted standards as national standards;
- In fulfilling the role of regulator—whether in terms of self-regulation of the profession, or performing shared regulatory responsibilities with government[14]—and promoting the benefits of the adoption and implementation of high-quality, internationally accepted standards, and globally consistent licensing, registration, and oversight arrangements for auditors of public interest entities;
- Through their relationships with governments and regulators, in promoting the benefits of the adoption and implementation of high-quality, internationally accepted standards, and globally consistent licensing, registration, and oversight arrangements for auditors of public interest entities; and
- When they operate in developed economies, have many years of experience, and receive due respect for their position, assisting members and associates in developing and emerging economies with the adoption and implementation agenda.

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[13] Adoption and implementation is enhanced through clearly defined and robust translations arrangements. With respect to translations, upon request, IFAC may grant permission to interested parties to allow them to reproduce and translate these publications. It recognizes the importance of having rigorous processes in place to ensure that standards are translated in a manner which enables consistent application across languages.

[14] Refer IFAC's Policy Position Paper 1, *Regulation of the Accountancy Profession*.

This Policy Position has been prepared by IFAC. The approved text of this Policy Position is published in the English language. For further information, please email: publicpolicy@ifac.org

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IFAC’S MISSION

IFAC's mission is to serve the public interest by:

- Contributing to the development, adoption and implementation of high-quality international standards and guidance
- Contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants
- Promoting the value of professional accountants worldwide
- Speaking out on public interest issues where the accountancy profession's expertise is most relevant

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