



International Chamber of Commerce

The world business organization

Department of Policy and Business Practices

Commission on Financial Services and Insurance

ICC policy statement “Improving the Quality of Financial and Business Reporting”

International Chamber of Commerce

38, Cours Albert 1er, 75008 Paris, France
Telephone +33 1 49 53 28 28 Fax +33 1 49 53 28 59
Internet www.iccwbo.org E-mail icc@iccwbo.org

2 November 2005 JAP/FBL/wjb
Document 113/162final



Improving The Quality Of Financial And Business Reporting

Introduction

Information is the lifeblood of global capital markets. High-quality, consistent, comparable and understandable reporting by business enterprises enhances investor confidence and market efficiency, and thereby contributes to the depth and liquidity of capital markets, which businesses depend upon for sustainability and growth.

Five years ago ICC issued a policy statement on “Improving the Quality of Financial Information”. That statement noted that there is a substantial gap between the quality of financial information available in many countries and the reasonable expectations of the users of this information. It also identified the closing of that gap as a major priority issue for all actors in the international financial marketplace – buyers, sellers, investors, lenders, borrowers, regulators, finance ministries and central banks. And it called for:

“... the changes necessary at national and international level so that all general-purpose financial information may be prepared according to a single worldwide framework using common measurement criteria and requiring fair and comprehensive disclosure. The framework must provide users with a transparent representation of the underlying economics of transactions and must be applied rigorously and consistently.”

The potential benefits of a worldwide framework for financial reporting are significant:

- Greater comparability and comprehension of financial information for investors, especially those engaging in cross-border transactions,
- Increased availability of capital and lower costs,
- More efficient allocation of resources, and
- Higher economic growth.

A number of important developments have occurred since ICC issued its original policy statement.

- The International Accounting Standards Board (IASB) – the organization developing International Financial Reporting Standards (IFRS) – has implemented a significant restructuring, which has improved the acceptability to national authorities of its role as a global standards-setting body.
- The European Union has adopted IFRS as the basis for reporting in the consolidated financial statements by listed companies within its jurisdiction. The US Financial Accounting Standards Board is working with the IASB on a number of joint projects, and Japanese and other national standard-setters have launched initiatives to converge their national standards with IFRS. Many developing countries and emerging markets are adopting IFRS as the basis for their national standards as well.
- Financial scandals in the US, Europe and elsewhere suggest that financial reporting, by any standards, needs to be underpinned by improved regulation, corporate governance, auditing and other measures.

These developments suggest that a more focused set of ICC recommendations at this time might be helpful in achieving the desired objectives. Moreover, investors and other



stakeholders have become more demanding, which suggests that the broader concept of business reporting and transparency should be developed and supported.

Global convergence of accounting standards

ICC supports IASB's work to develop a single set of high-quality international accounting standards and its efforts to bring about convergence of national standards and IFRS to high-quality solutions, thereby setting the stage for global convergence. ICC commends IASB for the significant strides it has made in recent years in improving the quality of its international standards and in establishing processes and procedures that have increased confidence in its work. At the same time, it is recognized that on-going efforts must be made to assure high-quality input into the international standards-setting process, to give full consideration to differing viewpoints and to enhance the acceptability of IFRS to authorities around the world.

Convergence of national standards with IFRS is a complex and difficult process. In ICC's view, success will depend upon prior implementation of a high-quality platform of IFRS standards that command wide acceptance and support. Moreover, convergence can only be achieved by using the same standards, interpretations and consistent enforcement positions. It is important that all participants in the financial reporting chain work together to promote this consistency. In doing so, however, we cannot lose sight of the fact that IFRS standards are principles-based. Experienced professionals exercising reasonable judgment may reach different conclusions which are nonetheless in line with the principles and guidance material of a given standard. The concept of a range of acceptable interpretations, where this is unavoidable, is fundamental to a principles-based system.

Moving more specifically to convergence of national standards with IFRS, ICC encourages IASB to expand its official liaison activities with national standards-setters and to participate in joint convergence programmes, such as the one launched with the US Financial Accounting Standards Board (FASB). IASB should be sensitive to the problems of preparers, users and others and should take this into account with respect to the frequency, volume and complexity of future changes in IFRS. IASB's support for the complete, consistent and faithful translation of IFRS into languages other than English is critical, as is its participation, within its limited resources, in outreach and training programmes. ICC also encourages its national committees and member companies to support IFRS translation and training projects through participation and funding.

At national level ICC encourages national standards-setters to align their accounting standards with IFRS as a priority objective. The goal is the adoption of international standards with no or very limited additional national requirements for enterprises whose securities are listed on a regulated market. In some markets, national standards in line with IFRS may be considered for a broader range of companies. In such cases it is important to recognize the special needs of small and medium sized enterprises. National standards-setters should develop convergence strategies that take into account the needs of all stakeholders, specify the process and timetable, and are fully transparent.

ICC believes that the ultimate benefit of global convergence will outweigh the costs



imposed on business by the convergence process. However, these costs are real and cannot be ignored. National standards-setters must strike a careful balance between moving expeditiously towards convergence with IFRS, while avoiding the burden of too much change in one particular reporting period and of requiring reporting entities to make multiple successive changes in their accounting policies with respect to the same matter.

Beyond accounting to supporting infrastructures

A single worldwide framework for financial reporting requires more than a common set of accounting standards. It also requires an underlying infrastructure of strong corporate governance practices, effective regulatory oversight and enforcement, effective auditing, management committed to transparency, and support from users of financial information. Each link in the information supply chain that delivers financial reporting must be strengthened. International investors and lenders need reasonable assurance that accounting and reporting standards are more than written words, that they are applied effectively in practice.

ICC, as the world business organization, is acutely aware that national supporting infrastructures reflect various local business practices, cultures and traditions, and that global uniformity is not likely, certainly in the foreseeable future. However, there are some practical measures toward greater global convergence that could be helpful.

The OECD Principles of Corporate Governance provide a flexible framework for considering improvements in corporate governance at the national level, including improvements with respect to disclosure and transparency. While ICC does not endorse any particular model of corporate governance, it recognizes that high-quality corporate governance norms are critical to high-quality financial reporting. ICC is committed to supporting improvements by the exchange of information on business experiences and best practices through its series of corporate governance roundtables and its web site.

Effective regulatory oversight and enforcement also is critical. At one level this requires national authorities to make sure that standards and regulations are being followed in practice. At the international level, convergence of regulatory approaches will be a significant underpinning of a common worldwide framework for financial reporting. ICC urges regulators to improve the international dialogue in this area.

Auditing is critical to assuring that financial statements reflect the application of IFRS and provide a fair representation of financial position and transactions. Auditors and auditing have been the focus of intensive regulatory reform in many countries in recent years. Many of these regulatory changes are highly beneficial to the quality of auditing and the fact and appearance of auditor independence. However, often conflicting national regulatory approaches have added to the complexity and costs of compliance on global audit engagements, and in some cases these conflicts can impede improvements in overall audit quality. The potential of overlapping national audit quality inspection programmes, applied on an extraterritorial basis, similarly would add to costs without a commensurate benefit to quality. ICC believes that regulators of the auditing profession should move quickly to reduce these conflicts and work towards common principles and approaches to the regulation of auditors, along with mutual recognition of each other's



oversight and inspection programmes wherever possible.

In addition, ICC strongly supports the adoption of International Standards on Auditing (ISA) developed by the International Auditing and Assurance Standards Board (IAASB). Adoption of these standards by national authorities and effective national mechanisms to assure compliance with them would contribute to greater consistency in audit quality across geographies. Absent the leadership and commitment of regulators in this area, global consistency will remain elusive.

Looking to the future

Financial reporting is a critical information component for investors in their decision-making. Global convergence will make an enormous contribution to the quality, comparability and consistency of financial information, and will strengthen the functioning of global capital markets to the benefit of world business.

Financial information is only part of the picture that investors and other users need, and there is a growing demand for more relevant and comprehensive business reporting models. ICC encourages more research and development in this area. In this regard, ICC notes in particular the work of the Enhanced Business Reporting (EBR) Consortium. EBR contemplates a reporting model that goes beyond financial performance to encompass information on a company's markets, operating environment, strategy, capabilities and resources, execution and non-financial performance. The goal is to develop a reporting framework that adds value to the information supply chain; that is comparable across companies, geographies and time-frames; and the content of which can be measured with an acceptable degree of accuracy. ICC encourages its national committees and members to cooperate with the Consortium to ensure broad international business input into the development of the EBR model.

Looking to the future, companies, investors and other stakeholders will need to take into account new technologies that can contribute to the timeliness and efficiency of financial and business reporting and analysis. One key example is eXtensible Business Reporting Language (XBRL), which is an open, global information standard that allows users to exchange data between different software applications in the real time using systems such as the internet. This facilitates access to information from multiple sources and allows downloading directly into spreadsheets and models for analysis. The use of XBRL permits accurate and quick research of financial and business information. XBRL integrates IFRS taxonomy. An EBR framework would enable an even more robust use of XBRL. ICC encourages the work in this area.

About ICC

ICC is the world business organization, a representative body that speaks with authority on behalf of enterprises from all sectors in every part of the world. ICC promotes an open international trade and investment system and the market economy. Business leaders and experts drawn from the ICC membership establish the business stance on broad trade and investment policy as well as on vital technical and sectoral subjects. ICC was founded in 1919 and today it groups thousands of member companies and associations from over 130 countries.