Policy statement

Improving the quality of financial information
Commission on Financial Services and Insurance, 6 May 2000

The globalization of business investment and capital markets has increased the need for high-quality financial information. It is widely agreed, for example, that doubts about the reliability of corporate financial statements in some nations contributed to the breadth and depth of the financial crises in recent years affecting Asia, Latin America and Russia. At the same time, business enterprises would benefit from a common approach to financial reporting that is characterized by consistency, coherence, and ease of implementation and understanding.

ICC believes that there is a substantial gap between the quality of the financial information available in many countries and the reasonable expectations of the users of this information. Closing the gap should be a priority issue for all actors in the international financial marketplace - buyers, sellers, investors, lenders, borrowers, regulators, finance ministries and central banks. Success would mean not only improved transparency and greater comparability and reliability of financial information, but also very likely a reduction in the cost of capital and diminished burdens on business.

ICC therefore calls for the changes necessary at national and international levels 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.

ICC is pleased to note that a number of initiatives on accounting, auditing and financial disclosure are underway that will contribute to the achievement of this broad objective.

- The International Accounting Standards Committee has adopted a restructuring plan that will produce an even stronger standards-setting body, characterized by independence, professionalism and expertise, and that should enhance the acceptability of International Accounting Standards (IAS). Already, IAS can be called a success story in international business self-regulation, as more and more developing and transition economies adopt IAS or use them as a benchmark for setting or improving national standards. The European Union is moving towards IAS as a common base for the member states, and the United States is discussing eventual convergence between international and national standards.

- The International Forum on Accountancy Development (IFAD) - an initiative of the International Federation of Accountants and the World Bank which brings together representatives of the accounting profession, users and preparers of financial statements, regulators, providers of development assistance, and other international organizations - is implementing a vision of improved financial reporting which entails raising accounting, auditing, professional ethics, education, corporate governance and regulatory standards to a common high level. IFAD is committed to the use of international accounting standards as the minimum benchmark worldwide.

- The International Federation of Accountants has under consideration a number of proposals to streamline its decision-making, apply more resources to developing International Standards of
Auditing, and implement a system of peer review and quality assurance among accounting and auditing firms that claim international expertise.

- An international guideline for national requirements on the qualification of professional accountants has been issued by an inter-governmental group of experts on accounting and financial reporting, operating under the auspices of the United Nations Conference on Trade and Development (UNCTAD), and will be used to strengthen accounting education in developing nations and countries in transition so that they are better able to implement international standards.

Business, and in particular the preparers of accounts, would like to see the emergence of one single system of international accounting. If, for the time being, it proves impossible to harmonize the two systems currently used by companies in the industrialized world - namely, IAS and USGAAP - agreement should be sought on mutual recognition.

ICC applauds all the above initiatives, but recognizes that the accountancy profession alone cannot accomplish the needed improvements. This will require a commitment by governments and the business community working together with the profession around the globe. Therefore, ICC national committees and members - who represent the preparers of financial statements, the issuers of debt and securities, investors and lenders in the private sector - will work in partnership with the profession and other relevant parties to improve financial information and reach a global convergence of standards and practices at the highest possible levels of quality. Doing so will put global markets on a sounder, more stable footing, with consequent benefits for business and society as a whole.