



# Core Principles Implementation

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# Importance of Implementation of International Standards

- ◆ Promote sound financial systems domestically
- ◆ Promote financial stability internationally
- ◆ Strengthen financial regulation and supervision
- ◆ Enhance transparency
- ◆ Facilitate institutional development
- ◆ Reducing vulnerabilities



# FSF Task Force on Implementation of Standards

- ◆ FSF set up the task force in Sept 1999
  - ❖ identified 3 key factors for fostering implementation of standards
- ◆ FSF endorsed the report of the task force in March 2000
- ◆ Follow-up group set up to explore more on market and official incentives



# Implementation of Standards

## Three key factors for fostering implementation of standards

- ◆ promoting country ownership
- ◆ facilitating market and official incentives
- ◆ mobilizing resources both nationally and internationally through enhanced partnerships



# Ownership

- ◆ Implementation of standards is a sovereign decision
- ◆ Economies will be willing to do so when in their national interest
- ◆ Strong sense of country ownership is critical for fostering implementation



# Ownership

## Difficulties

- ◆ Some economies consider “**national**” standards as being more appropriate for their particular stage of development
- ◆ Fear that disclosure of **non-observance** of standards may lead to adverse market reaction
- ◆ Concerns that applying international standards would result in an explicit recognition of hitherto **hidden economic loss** ( Economic loss vs Accounting loss )



## Market Incentives

Market incentives applied by market participants when they use information on an economy's observance of standards in their risks assessment and reflect this in

- ◆ differentiated credit ratings
- ◆ borrowing spreads
- ◆ asset allocation
- ◆ other lending and investment decisions



## Market Incentives

For market incentives to work market participants need to

- ◆ be familiar with international standards
- ◆ judge the role of standards in risk assessments
- ◆ have access to information on observance
- ◆ reflect this in pricing and allocation decisions



## Official Incentives

- ◆ Official incentives could be applied by official sector when an economy achieved defined milestone in the implementation process
- ◆ Official incentives could serve to complement market incentives
- ◆ Principles in applying official incentives
  - ❖ reinforce country ownership
  - ❖ consistent with broader public policy objectives



# Official Incentives

## Three-prong approach

- ◆ encourage economies to adopt standards and formulate and execute implementation plans
- ◆ promote market discipline on economies to observe standards and undertake assessments
- ◆ sanction non-observance of standards or refusal to undertake external assessments



# Resources

- ◆ Implementation is highly resource intensive
- ◆ Two areas of acute resource needs
  - ❖ capacity building ( including technical assistance and training )
  - ❖ assessment of progress in implementation



## Five Stage Strategy for Fostering Implementation

- ◆ Identify and forge international consensus on key standards
- ◆ Prioritize standards for implementation taking account of country circumstances
- ◆ Design and effect an action plan
- ◆ Assess progress in observance of standards on an ongoing basis
- ◆ Disseminate information on progress in observance of standards



# Accounting Standards

- ◆ Effective application of many standards depends on the quality of underlying data and accounting practices
- ◆ Accurate, reliable and timely financial statements are a fundamental for economic efficiency and financial stability
- ◆ Multiplicity of standards in accounting and auditing at present
- ◆ Efforts are required to promote convergence of accounting standards



## Further Work on Accounting Standards

- ◆ IFIs and international regulatory bodies to work closely with international and national accounting profession to expedite strengthening and convergence of standards
- ◆ Economies be encouraged to
  - ❖ adopt high quality international accounting standards
  - ❖ specify the set of standards they are following
  - ❖ ensure standards' requirements are clear, reliable, transparent and objective
  - ❖ apply and enforce them in a consistent manner



## Way Forward

- ◆ Encourage observance of key standards through
  - ❖ policy dialogue with IFIs
  - ❖ peer discussions
  - ❖ technical assistance
  - ❖ self and external assessments
- ◆ Increase market awareness of standards
- ◆ Enhance information dissemination to facilitate market responses
- ◆ Develop clear methodologies for assessments on observance of standards



## Financial Stability Forum and Implementation of Standards

- ◆ Members endorsed recommendations of Task Force and Follow-up Group
- ◆ FSF to give update to G20 on economies' response and actions
- ◆ Task Force and Follow-up Group to keep watching brief on development and may review the field at appropriate juncture



**End of Presentation**