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ADDRESS BY MR THARMAN SHANMUGARATNAM, MINISTER FOR FINANCE, AT THE KPMG ASIA-PACIFIC IFRS CONFERENCE, ON 27 MAY 2009, 2.20PM, AT THE GRAND COPTHORNE WATERFRONT HOTEL

CONVERGENCE OF GLOBAL ACCOUNTING STANDARDS

Mr Danny Teoh, Managing Partner KPMG Singapore

Mr Tatsumi Yamada and Mr Warren McGregor, Members of the International Accounting Standards Board

Distinguished Guests, Ladies and Gentlemen,

Introduction

I am happy to join you this afternoon at the inaugural KPMG Asia-Pacific IFRS Conference. The theme for the Conference, "Restoring Confidence in Capital Markets", reflects an important challenge today, not just for the financial industry but for the global economy at large.

Reforming the Securitized Markets - a Key Priority

2. We are going through a crisis unprecedented in its scope - it cuts across global economy - and certainly deeper than any other in a least 60 years. While many now point to "green shoots" in some countries and in specific industries, there is little confidence that they will proliferate across the global economy - or even that they will last. A large part of the world economy is still contracting. It is too early to conclude that we are in recovery mode.

3. In fact, the fastest growing sector appears to be the 'green shoots' industry itself - as of last night, Google entries on 'green shoots' had reached 5,570,000.

4. However, even among the optimists, the consensus is that the recovery when it comes is likely to be weak, given the large and unresolved problems in the global financial system. The banking industry is gradually stabilizing, but credit growth will be constrained by the large overhang of impaired assets on the books of banks. It will take time to work this out of the system, and get new investors into the banks.

5. Equally important, we are not anywhere near getting the securitized markets back to life. Getting confidence back in securitized markets is a key priority if we are to sustain economic growth, because they account for a large part of how credit is extended to companies in the US and in developed world generally. Banks cannot take their place in these developed markets. The banks are already challenged by having to obtain capital to meet their own balance sheet needs, and will not be able to expand their balance sheets to take on the role previously played by the securitized markets.

6. Unregulated and poorly regulated securitized market was a major cause of the current global crisis. But there is every reason to expect that, with appropriate regulatory and industry reforms, markets for securitized products can play the useful role for both borrowers and lenders that they were originally envisaged to do. Securitization need not be a bad word.

7. The main lines of reform aimed at reducing systemic risk arising from securitized markets are already being discussed globally. They include proposals to standardize credit default swaps and subject them to systems of central clearing; requiring banks to retain a slice of the securitized products that they design or sell, so as to avoid the excesses of the 'originate to distribute' model of banking; enhancing transparency in securitized markets by requiring issuers to disclose key assessments and duties performed by the underwriter and sponsor; and, importantly, reforming a system in which credit rating agencies are paid primarily by issuers, to one in which the interests of investors are better served.

8. These are important reforms to be worked out, even if they capture less attention in the global media than the efforts to bring the banks back to health. There is much work ahead globally, amongst market regulators, standard setters and financial institutions, all participants in the markets to restore confidence in the financial system and enable it to play a constructive role in funding the growth of economies.

Role of the International Accounting Standards Board

9. Accounting standards are an important part of this work ahead of us. We need a high quality global reporting language for business and finance; a language that gives investors and stakeholders confidence and fosters stability in the financial system.

10. A single international reporting language of disclosure and transparency would significantly improve investor confidence. Investors can then more easily compare companies' relative performance across jurisdictions, and weigh investment opportunities objectively.

11. To this end, the International Accounting Standards Board (IASB) has made significant progress in coming up with a set of high-quality International Financial Reporting Standards (or IFRS). The use of IFRS has also gained global momentum globally. After the European Union adopted IFRS as its financial reporting standard in 2002, many countries have followed suit. There are now well over 100 countries that either require or

permit the use of IFRS in their markets.

12. Most significantly, the US has also come onboard to develop IFRS as the global standard, with the US Financial Accounting Standards Board (FASB) and the IASB working on the convergence of US GAAP and the IFRS. These are all positive developments for the effective functioning and growth of international capital markets.

13. The development of IFRS as a global accounting standard will not be without controversy. Fair value accounting is perhaps the most complex and pressing challenge that the IASB and participants in the international capital markets are facing today - especially with regard to the valuation of securities in inactive and extreme market conditions.

14. The debate on fair value or mark to market accounting reflects a number of valid tensions – in particular the tension between meeting the interests of the investor in an individual institution and avoiding the build-up of risks that affect the stability of the financial markets and system as a whole. There is clear merit to mark to market accounting from the perspective of an investor in a bank or other institution. If a security has clearly defined market value, this is indeed the best indicator of what shareholders in the institution indirectly own. Likewise, the current approach in banking of marking the trading book to market and provisioning for incurred losses in the banking book, is appropriate when viewed from the perspective of an individual bank that operates in a reasonably stable financial environment.

15. However, while mark to market accounting was not a cause of the crisis, it does appear to have facilitated and contributed to procyclical behaviour in the financial markets when combined with other practices in financial markets. There is now something of a consensus that this accounting approach contributed to how financial market participants took excessive risks in the years leading up the crisis, as well as the severity of the subsequent downturn. As the recent Turner Review in the UK (published by the UK Financial Services Authority) put it, “ it is a reasonable judgment that the application of fair value/mark to market accounting in trading books, played a significant role in driving the upswing in credit security values in the years running up to 2007, and has exacerbated the downswing.”

16. There is no easy solution to the fair value conundrum, and certainly no perfect way to meet the needs of both market transparency and market stability. Given the conundrum, the IASB is well placed to work with various stakeholders, including financial regulators to find the most practical way forward on global standards for financial reporting.

17. While we search for practical solutions, however, it is critical that we do not lose sight of the objectives of financial reporting. Accounting standards must continue to be grounded on well established principles to reflect the economic substance of the underlying transactions, and be developed to achieve its purpose of providing timely, relevant and comparable financial information to investors. At the same time, the objective of systemic stability must be factored into the development of accounting standards. The standards should not promote, even inadvertently, procyclical behavior. There are no easy solutions. We need to find practical solutions.

Role of Asian Region and Singapore in the IFRS standard setting process

18. Besides Europe and the US, Asia is also a key player in the global IFRS convergence movement. The IASB on its part has been proactively reaching out and engaging with the Asian region. Today's conference is one such example of this collaboration that the IASB has embarked on with the accounting profession to engage the region.

19. In Singapore, the Accounting Standards Council (ASC) is the accounting standards setter appointed under Statute. Under the leadership of Ms Euleen Goh, the ASC and its predecessor the Council of Corporate Disclosure and Governance (CCDG) have since their respective inceptions in Nov 2007 and Sept 2002, been an active partner in IASB's efforts to promulgate and develop IFRS in the Asian region as the global accounting standard. This close relationship between the IASB and the Singapore ASC has manifested itself in the various collaborations and initiatives the IASB and the ASC as well as the CCDG have worked on through the years.

20. The IASB held its first IFRS Annual Conference outside Europe in Singapore in 2007. Last year, the ASC organised the Regional Standard Setters Meeting in Singapore, which brought together delegates from 8 countries in the Asia Pacific region to facilitate convergence towards IFRS. Last month in Beijing, the ASC came together with its counterparts in the Asia and Oceanic regions to form the Asian-Oceanian Standard Setters Group (AOSSG) that brings together the standard setters from the region, including China, Japan, South Korea, Australia, New Zealand and Malaysia, to provide the IASB with an Asian-Oceanian perspective on accounting issues. And next year, in 2010, Singapore will play host to the IFRS Regional Policy Forum. On top of these events, the ASC is also involved in regional project working groups to provide inputs on key IASB projects on IFRS, such as matters relating to leases, revenue recognition and financial instruments.

Singapore's Convergence Roadmap

21. As an international business and financial centre, Singapore has a strong stake and interest in the development of IFRS as the global accounting standard. We have long been an advocate for a single global accounting standard, and since 2002, Singapore has embarked on a strategy of closely modeling our Singapore Financial Reporting Standards or SFRS after the IFRS - deviating from IFRS only in very specific and exceptional instances where there are strong reasons backed by economic and business substance arguments.

22. Singapore companies have generally been "IFRS-ready" and "IFRS-compliant" in a substantive manner for a number of years now. With our experience implementing IFRS, Singapore is thus well placed to play an active role in the development of IFRS as the global accounting standard. ***The Singapore Accounting Standards Council has therefore decided to take a key step forward in its strategic directions, to work towards the full convergence of the SFRS with the IFRS for Singapore incorporated companies listed on the Singapore Stock Exchange by 2012.***

23. With this aim of convergence for companies listed in the Singapore Exchange by 2012, it would be even more important for the ASC to proactively engage and gather feedback from the business and investment community on emerging IFRS issues in Singapore and the region, so that the concerns of Singapore and the region would get appropriately reflected and addressed at the international standards setting level.

24. I know we have made good progress in our convergence efforts thus far. As most of you would be aware, one area of deviation between the SFRS and the IFRS is in the accounting for unexpired long-term leasehold land, which in the past under the IFRS was recognised as operating lease. The Singapore ASC and the other standard setters in this region had provided feedback to the IASB of the need to consider the economic realities of our market place, and the legal framework that supported that control and risk/reward passes on to the leaseholder in our market place for long-term leasehold land. The IASB has taken in the feedback and recently made revisions to the standard to allow such long term leasehold land to be recognised as a finance lease. With this new amendment, the treatment of leasehold land in Singapore is now aligned with the international treatment.

Implications to Singapore Companies

25. The strategic direction to align SFRS with the IFRS fully will further reinforce Singapore's role as an international business and financial hub. Having a set of global accounting standards will eliminate any remaining financial reporting costs for Singapore listed companies operating in more than one jurisdiction, as well as facilitate the participations of these companies in the international capital markets. It will also provide international investors with the assurance of global comparability and transparency when they invest in Singapore.

Conclusion

26. As Singapore proceeds on its Convergence Roadmap, we intend to be a key partner with the IASB and the region in the international standards setting process. We look forward to closer cooperation with the IASB in the promulgation of IFRS in the Asia region. We also welcome the IASB, members of the accounting profession and business leaders to engage the ASC on areas of mutual interest and where Singapore can offer its resources and expertise to ensure the relevance of accounting standards to a rapidly changing economic and financial environment in Asia.

27. I wish everyone a lively discussion ahead for the rest of this Conference.

Last reviewed on 28 May 2009

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