National Bank of Romania/ICAEW Conference, 20 June

Introductory remarks

Mr. Gerald Russell, ICAEW Immediate Past President

Good morning, everyone.

Let me begin by saying what a pleasure it is to be with you today – this is my second visit to the National Bank, following my participation at an event with the Lord Mayor last year. On my first visit, I was struck not only by the impressive building but also by the fact that the National Bank and ICAEW share the same birthday - we were both founded in 1880. Since then, our respective markets and countries have of course come a long way, but the fundamental principles behind our respective organisations remain as valid and important as ever.

As the Governor Isărescu mentioned in his address, ICAEW and NBR have over the last year or so developed a close cooperation: this is based on a number of shared interests, beginning with pursuing transparency and accountability in the market, which is as essential for investors as it is for regulators. And more broadly, we share a public interest role: ICAEW's Royal Charter requires that we work in the public interest and this is something we do in a variety of spheres, education and training, promoting technical excellence and also monitoring of our members.

Our participation here today is part of a broader range of activities which ICAEW, through our Europe Region, which is headquartered in Brussels, is undertaking to promote quality in reporting to increase business confidence. Through our international strategy, we are committed to working in partnership with key organisations to promote quality in financial reporting, auditing and governance. In addition to working with the National Bank, we are cooperating with the Romanian professional accountancy institute, CECCAR, the Romanian Chamber of National Auditors, CAFR, and the Romanian Oversight Body. And this is in line with our work in many nearby countries, including Poland, Hungary and Bulgaria.

But let me come back to the key subject which we are discussing in this conference: the important next step in enhancing further in Romania the basis for investor confidence, through the extension of IFRS reporting. Specifically, we are also looking at the implementation of and interaction between IFRS and prudential rules. This conference follows a detailed Roundtable on these subjects between NBR and ICAEW held in London where we brought together many experts in the field for an interactive discussion. We are delighted to be asked to participate in this conference, again to bring a broader sense of international experience.

From the ICAEW perspective, this contribution will provided by my colleague, Ian Michael, from ICAEW's Financial Services Faculty who will address both IFRS and the Basel Accord: providing us with some indications of where things are moving in both spheres. And from a practical, implementation perspective, we are also very pleased that John Alton from Ernst & Young (my own former firm, in fact) will provide a presentation on the challenges that have been encountered and overcome in other markets. I should also perhaps just say that John, while working in Switzerland, is also a member of ICAEW – which I believe underlines the international profile of ICAEW as a professional body with 137,000 members, a large proportion of whom are working internationally.

Following these two presentations, I know that there will be some time for a few questions from the audience, and I know that both presenters would welcome the opportunity to respond to you. Equally, it is the case that there will be a further opportunity in the panel discussion at the end of the conference to raise questions and points, by which time we will have a greater sense of the similarities and differences between international experience and that of Romania.

Before I give the floor to my colleague Ian, I did just want to make a few observations which can help set the context of the discussion we are going to have.

Firstly, I would remind everyone of the importance of the decision by the European Union in 2002 to adopt international accounting standards for the group accounts of listed companies: this was a landmark in the development of a single accounting language worldwide. We have subsequently seen adoption - or programmes to converge with - International Financial Reporting Standards in every continent.

And we do genuinely believe that the use of IFRS improves transparency and comparability of accounts for investors and other stakeholders, and consequently can have a positive impact through improving access to capital and funding. We also believe that greater transparency and comparability of reporting is the way to go in the aftermath of the crisis: we are conscious that some have criticised the role of IFRS in the financial crisis, but in fact the body of learned opinion, having actually studied the matter in detail, is that IFRS helped bring out risks in a more transparent way than would otherwise have been the case without IFRS.

For these reasons, we therefore very much support the wider use of IFRS in Romania - even though this may be a challenging course to follow, not least as the content of IFRSs continues to evolve, partly in response to the financial crisis. Staying on top of the changes in the standards is a key element of the work of our Financial Reporting Faculty, which is open to subscription not only by ICAEW members. And finally, we should be conscious that the benefits of IFRS will be lost if different regions or countries try to adopt their own local versions. The UK is strongly of the view that Europe should use IFRS as published by the International Accounting Standards Board.

As part of the overall response to the financial crisis, there has of course been a tightening of prudential rules for banks by the Basel Committee on Banking Supervision. The most important element is the package known as 'Basel III'. As Ian will discuss in a few minutes, this package significantly increases minimum levels of capital which regulators will require banks to hold, and also - for the first time - introduces an internationally agreed approach to the quantitative regulation of bank liquidity.

It is important that Europe introduces Basel III as a minimum standard that has been agreed internationally. Not to do so would risk negative perceptions of the soundness of banks, and bank regulation, in the EU. Britain's regulator, the Financial Services Authority, has already introduced changes on a national basis which are in line with a number of important elements of the Basel III approach.

More can and should be done. Although it is not a subject for detailed discussion today, I would just draw attention to ICAEW’s work on the “Audit of Bank: lessons from the crisis”, published last year by our Financial Services Faculty. This focused on the need for clearer presentation of risk information in bank reporting and the need for better and more regular dialogue between auditors and bank supervisors, to enable both parties to perform their duties more effectively and efficiently.

We are very pleased at the positive reactions which have been received to these two suggestions, and indeed other aspects of the Faculty’s publication. And we very much look forward to pursuing the dialogue further, on an international basis with key organisations of the standing of the National Bank and fully involving the national accounting and auditing professions

So, having set the scene, I would like now to invite Ian Michael to give his presentation and I look forward to an interesting exchange of views with you.