



Roundtable on the future of global financial regulation

London, England

April 22, 2009

SUMMARY REPORT

About CGA-Canada

Founded in 1908, the Certified General Accountants Association of Canada serves 71,000 Certified General Accountants and students in Canada and more than 80 countries. Respected accounting and financial management professionals, CGAs work in industry, finance, government and public practice.

CGA-Canada establishes the designation's certification requirements and professional standards, offers professional development, conducts research and advocacy, and represents CGAs nationally and internationally.

About ACCA

The Association of Chartered Certified Accountants (ACCA) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management. ACCA has its headquarters in London and 141,330 of our members, students and affiliates are based in the UK. Globally, we support our 131,500 members and 362,000 students throughout their careers, providing services through a network of 82 offices and centres around the world. The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas, including: taxation (business and personal); small business; pensions; education; and corporate governance and corporate social responsibility.

Both ACCA and CGA-Canada have been working with their members and others in the financial services sector to better understand the financial crisis from the perspectives of governance, remuneration, regulatory policies and accounting standards. . Through events such as this roundtable, both organizations intend to lend their expertise to forums such as the G-20, in order to assist in seeking long-term solutions to the global financial crisis.

For further information, please contact:

ACCA

Veena Hudson
Head of Public Affairs
Email: Veena.Hudson@accaglobal.com
Tel: +44 (0) 20 7059 5615

CGA-Canada

Carole Presseault
Vice-President, Government & Regulatory Affairs
cpresseault@cga-canada.org
613 789-7771 ext. 222

Table of Contents

1. Introduction	4
2. Key issues	4
3. Conclusion & next steps.....	7
Appendix – Participant List	8

1. Introduction

The ongoing global financial turmoil has led policy makers – nationally and internationally – to revisit approaches to regulation. Most specific reform proposals to date have been developed in international forums. While some countries are still focusing on stabilizing and managing the crisis, some emerging recommendations pinpoint improvements to the existing international financial architecture and more prescriptive approaches to governance and risk management.

It is in this context that the Certified General Accountants Association of Canada (CGA-Canada) and the Association of Chartered Certified Accountants (ACCA) two leading global professional accounting associations collaborated to bring together key business, opinion and thought leaders around one table to discuss the implication of global financial regulatory reform.

The roundtable, held at Canada House in London, England on April 22 2009, followed the meeting of the G-20 in the same city earlier that month. Discussions will help inform the two accounting bodies' policy development activities.

2. Key issues

a) Reform of global governance

As the crisis deepens, firm conclusions have not been made but consensus is developing around key issues viewed as contributing to the crisis. Observers have concluded that governance of institutions was flawed. However, should we move towards global governance structures as a result? Participants were asked how coordination of regulation at the global level could be improved and whether globally accepted standards of supervision and regulation can be applied equally and consistently in all countries. Participants were also asked if the G-20 should evolve to become a more permanent feature of global governance and regulatory discourse.

Participants were divided over the notion that more regulation is what is needed. Some questioned whether there was any purpose in trying to coordinate failing regulatory systems at the global level. However, participants were unequivocal in their view that regulating at the global level is ultimately impractical and unrealistic and that regulation should therefore remain at a national level.

How could a national government be accountable for the work of a global regulator, asked one participant? Others commented that the larger countries would simply ignore a global regulator. It was also noted that countries regulate themselves and their institutions differently and that regulation is based on a number of factors including cultural elements that cannot be fully aligned at a global level.

Yet, participants did agree that within countries coordination of regulatory organizations needs to increase and should be coordinated across borders. Yet one participant noted that increased cross-border coordination would not necessarily improve fundamentally flawed regulatory systems.

b) Redesigning a global regulatory framework

To date most specific reform proposals have been developed in international forums. The international response to the global turmoil began in October 2007, when the G7 countries asked the Financial Stability Forum to prepare recommendations for increasing the resilience of institutions and markets. That work is proceeding in parallel with a work plan directed by the G-20 countries. In April the G-20, made a number of commitments. Among its commitments and on the regulatory front, the G-20 committed to strengthening financial regulation to rebuild trust and to fund and reform international financial institutions to overcome this crisis and prevent future ones.

Leaders of the G-20 will meet again before the end of 2009 to review commitments made in London in April.

Roundtable participants were asked to comment on the possible redesign of global regulatory frameworks and the role the International Monetary Fund might play in supervising the world financial system.

Participants rejected the ability of any international organizations to oversee national regulation. Instead, they suggested that the role of central bankers is paramount. One participant suggested that central banks generally have stopped looking at the financial system and have somewhat disregarded the needs and actions of consumers, in particular the problems that the growing rate of indebtedness may cause.

A closer examination of how national economies are structured is warranted, a Canadian participant observed, noting that the impact of more regulation on the Small Medium Enterprise sectors should be carefully assessed.

c) The Islamic Finance model

Participants spent some time exploring the approach of Islamic finance and how some of its concepts could be applied to the broader financial sector to prevent future crises. Funds adhering to Shariah principles have to date, avoided the worst effects of the current crisis.

This approach is gaining some recognition in the West. Modern Islamic finance originated in the 1960s and is enjoying an increased presence worldwide. Total assets being managed under this model are estimated to range from \$500 b to \$1,000b. The first Shariah compliant fund in Canada was launched in May 2009.

The underlying concept of an Islamic fund is similar to other forms of ethical investment practices, in that the underlying investment parameters are restricted by reference to certain defined criteria, in the case of an Islamic fund, adherence to the precepts of Shariah law.

Participants commented that elements of Islamic finance can be linked to the concept of social responsibility – which has growing support among investors and corporations. Yet, one participant noted that any application of Islamic Finance principles to current regulatory systems could be challenging, as the Islamic system is managed differently and that ultimately, regulation cannot change human behaviour.

d) Financial innovation

Financial markets are always developing new products while rules are created to protect investors. Regulation can sometimes stifle innovation. The G-20 Working Group on Enhancing Sound Regulation and Strengthening Transparency has made a wide range of recommendations including the following:

- a system-wide approach that prevents the build-up of excess risk
- regulation that cover every relevant financial institution, market and investment, including private pools of capital
- strengthening international standards for capital and liquidity
- coordination of international standards for financial regulation with every G-20 nation committed to having its financial system undergo regular international reviews that would be made public
- national oversight over areas such as executive compensation, derivatives contracts, credit rating agencies and accounting standards.

Roundtable participants eagerly provided commentary on innovation. Comments ranged from the pressure being put on corporation to deliver earnings and for senior executives to produce results. It was noted that shareholders demand growth and innovation brings growth. Compensation schemes are also built on that premise. Participants did agree that executive compensation is plagued with the issue of valuation with a requirement that compensation is allocated in a timely manner.

Yet participants agreed that part of the solution lies in more transparency and in the ability to measure transparency.

Participants noted that the role of accounting standards and the issue of fair-value accounting might be one of the biggest challenges to address. The challenge is to find a method that accounts for liquidity that is at the same time fair, transparent and realistic. One participant reminded the roundtable that the role of accounting standards is essentially to tell a story that is

easy to understand. The financial instruments at issue are complex and sophisticated. Complex instruments are here to stay, commented one participant. Some might disappear but others will emerge. All must accept this as a fact and deal with the complexity of transactions. Participants commented that the process of accounting standard setting was becoming highly politicized as demonstrated by the recent public debate in North American and the EU on fair-value accounting. Recent pronouncements from the G-20 make it very clear that the expectation is that nations ought to exercise an oversight role over accounting standard-setting.

3. Conclusion & next steps

Despite the continuing challenges, participants concluded that professionalism and ethics ought to prevail and that risk management scenarios should inform corporate actions.

The following key questions emerged from the roundtable

- How can regulators be protected from political pressure?
- What role has the structure of executive compensation played in the current crisis?
- How can the transparency of regulators be improved?
- What methods can be used to improve professionalism and the ethics?

Participants were optimistic that with time, the right kind of solutions will prevail. In fact, it was noted that while Canada's banking system is often held up as an example of a strong regulatory framework, participants were reminded that the evolution of the regulation of the Canadian banking sector was the result of bank failures in the mid 1980s.

Discussion at the April 2009 roundtable on financial regulation will help inform the positions of both the Association of Chartered Certified Accountants and the Certified General Accountants Association of Canada most notably as they prepare to participate in the Global Accountancy Summit during the summer of 2009.

Appendix – Participant List

Richard Aitken-Davies	President, ACCA
Anthony Ariganello	President & CEO, CGA-Canada
Nigel Bacon	Executive Director, Canada-UK Chamber of Commerce
Clare Barnett	Counsellor (Commercial-Ontario), Ontario International Marketing Centre
Barbara Cameron	Vice-President, Public Affairs, CGA-Canada
Luc Carignan	Director, Invest Québec
David Clarke	Business Journalist & Communications Consultant
Paul Costello	Head, Canada & USA, ACCA
Cheryl Donais	Business Development Officer, Ontario International Marketing Centre
Tony Ducie	Chair, CGA-Canada
Adam Fenner	Partner, Olswang
Jeremy Fern	Head of City Affairs, City of London
David Green	Adviser on International Affairs, Financial Reporting Council
Steven Hall	Head of Financial Services, CBI
Veena Hudson	Head of Public Affairs, ACCA
Bess Joffe	Associate Director, Hermes Investment Management Ltd
Derek Linfield	Managing Principal, Stikeman Elliott LLP
Jim Lisson	Partner, Fasken Martineau
Caroline MacDonnell	Orthus Ltd
Jacqueline Marchand	Practice Leader Financial Instruments, Rio Tinto plc
Carole Presseault	Vice-President, Government and Regulatory Affairs, CGA-Canada
Derek Strocher	Senior Director, The Royal Bank of Scotland Group plc
Ian Welch	Head of Policy, ACCA
Giles Wilkes	Chief Economic Centre Forum (facilitator)