

## **Amando M Tetangco, Jr: Accounting reforms towards good corporate governance**

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines, at the 3rd Asian Accounting Firms (ASNAF) Conference, Makati City, 11 November 2005.

\* \* \*

Distinguished guests, ladies and gentlemen, good morning.

I am deeply honored to be part of this gathering of accounting experts from the Asia Pacific Region. I understand there are also delegates from Europe, particularly France and Belgium. I wish to join ASNAF Chair Cherry Bernaldo in welcoming all of you to Manila. This is a rare opportunity to be with the movers in the profession who are at the forefront of the crusade of coping with the accounting evolution happening globally. To the men and women who continue to heed the call to serve in this noble undertaking, we salute you.

The accounting profession has truly evolved into a vital catalyst of global convergence particularly with the adoption of the International Financial Reporting Standards (IFRS). The twin objectives of the new standards of promoting transparency and comparability in financial reporting transcends all regional boundaries and redounds to a greater cause of enhanced corporate governance and oversight.

The Philippines believes in the cause of adopting uniform accounting standards across the globe. We have expressed an unyielding commitment to the international community that these standards will be implemented in the country for the year 2005 and the Bangko Sentral ng Pilipinas is spearheading its adoption in the financial industry.

Let me share with you our valuable experiences in adopting the standards in the financial industry.

### **Adoption of IFRS in the financial industry– the Philippine experience**

It is fitting to say that the new accounting standards are a phenomenon. The changes infiltrated the backbone of financial reporting, which affected the way transactions are recorded and reported. The old school's concept of conservatism and materiality were overshadowed with new thoughts on fair valuation and substance over form. The new accounting standards modified our paradigm in evaluating the financial position and performance of institutions.

In addition to the already difficult task of adopting the standards, the BSP also has to contend with the difference in perspective between the principles of IFRS and the regulatory bodies. A popular example of which is the concept of loan provisioning wherein the IFRS provides losses on financial assets based on an incurred loss concept while the regulators provide losses based on incurred and expected loss concepts. Another contentious provision of the standards is the fair value option, which has been the subject of criticisms from the regulatory community.

The BSP has taken bold steps on these issues. At the onset, we emphasized that all financial institutions under BSP supervision should comply with the provisions of the new standards in all respects in preparing their audited financial statements. However, we remained steadfast in our position that financial institutions should provide for both incurred and expected losses. In this regard, they have to comply and reflect the BSP recommended valuation reserves in the prudential reports or in the reports submitted to BSP.

On the other hand, considering the amendments of the IASB on the fair value option provisions, we allowed financial institutions to use the said classification, subject to certain regulatory conditions such as:

- Having an appropriate risk management system prior to initial application of the fair value option for a particular activity or purpose and on an ongoing basis.
- The fair value option may only be used for instruments for which fair values can be reliably estimated; and
- Financial institutions should provide BSP with supplemental information as may be necessary, to enable BSP to assess the impact of the financial institution's utilization of the fair value option.

The adoption of the standards does not only call for alignment of existing regulations with the provisions but also necessitates the establishment of the infrastructure for prudential financial reporting. In this respect, we have revised the manual of accounts and developed a new reportorial requirement for banks. The advantage of going through this exercise is that we, as regulators, were given an opportunity to design the reportorial structure to create a common platform serving all our information requirements. The amount of information that we will be able to generate from the new reporting structure will enhance our off-site supervision capabilities.

The Philippine transition to IFRS is a consultative process involving the regulators, industry players and external auditors. The different perspectives shared in this endeavor helped us in understanding the principles behind the standards and the impact of adoption on our interrelated functions.

### **Disclosures and good governance**

One of the key features of the standards is the overwhelming amount of disclosure requirements. This has made financial reporting a complex process. However, looking at the upside of it, these disclosure requirements will empower the stakeholders in making relevant decisions.

The BSP believes that this uncovering of more information, will help us realize our vision of full transparency, which is one of the pillars of good corporate governance. Disclosures along with the other reforms that we have implemented such as requiring the board of directors to create corporate governance and audit committees, imposing more stringent fit and proper standards for the qualification and disqualification of bank directors, and requiring at least two independent directors in the board, among others, are keys in strengthening the confidence of the public in the financial industry. We believe that gaining the public's trust is the cornerstone of development.

Trust is what binds the components of an economy together. It creates a level playing field for all market players, which fosters an environment conducive to investments. Trust bestowed upon a system goes beyond the basic economic infrastructure. It gives an unwavering assurance that through progress or crisis, the public would remain committed to pull the strings for development.

### **Challenges**

The adoption of the standards only provides the gateway to achieving good governance. Several other hurdles will bask along the way as we strive to reach this goal. Each discipline in the accounting profession would have its share of issues to resolve and responsibilities to carry out that would be vital for corporate oversight.

Auditors would play a more expansive role in this undertaking. They would give us an independent view on how the risk exposures and other activities of the business ultimately affect the financial statements. They would keep watch over compliance with the standards and maintaining fairness and accuracy in the reports. Accountants in the academe are handed with the noble task of passing on the learning from one generation to the next to keep the same passion seamlessly running through time. Corporate accountants would document the evidence of evolution in accounting through their books and financial reports. The regulators on the other hand, would anchor the industry on prudent grounds amidst the changing standards and practices.

An even greater challenge is to channel this harmonious interplay of responsibilities to a regional effort of establishing a common set of regulations similar to the Sarbanes-Oxley Act in the United States or the EC 8th Directive in Europe. This vision may already be in the drawing boards in some of the countries represented here or better yet this may stir a united stance to echo a regional commitment on corporate governance.

### **Conclusion**

We are in the middle of a monumental evolution of accounting standards and other best practices.

Let us not focus on the difficulties and complexities of change, rather let us take this opportunity to correct the mistakes done in the past, strengthen our fortress for growth and seize the chance for global convergence.

I would like to congratulate the organizers of this event for this worthwhile endeavor. Thank you and I wish you all a successful conference.