Introduction and welcome

Chairwoman Bowles, Members of the ECON Committee, I am grateful for the opportunity to address this committee. It has been a while since I served as a minister in the Dutch government. Being in a Parliamentary setting once again brings back many fond memories.

I am delighted to answer any questions you may have about our work. However, I would like to begin by make some brief opening remarks on two topics.

First, I want to say a few words on the importance of the IASB’s relationship with Europe. Second, I want to provide some observations on the role of accounting standards and the financial crisis.

Europe’s relationship with the IASB

The relationship between Europe and the IASB is strategically important to both of us.
Europe invested a great deal of political and financial capital in its decision to adopt International Financial Reporting Standards (IFRSs) in 2005. Europe’s decision placed the IASB firmly on the path to becoming a global standard-setter.

The European Parliament overwhelmingly endorsed\(^1\) IFRS adoption by a majority of 458 votes. The Parliament also called for IFRSs to become the globally accepted language of financial reporting.

This call has been heeded by many. More and more countries have chosen to follow Europe’s lead and adopt IFRSs. In the Americas, almost all of Latin America and Canada are fully on board. In Asia-Oceania, Australia, New Zealand, Korea, Hong Kong and Singapore are, or will be, full adopters. Japan already permits some domestic companies to report using IFRSs, while China is on the path to convergence. South Africa and Israel are fully on board.

\(^1\) http://www.iasplus.com/resource/euiasreg.pdf
In Europe, outside of the EU, Turkey has adopted the standards in full and Russia is in the process of doing so. The majority of the G20 members are IFRS adopters.

The US Securities and Exchange Commission (SEC) will decide shortly whether to incorporate IFRSs into its own financial reporting regime and, if so, how. I am optimistic on the prospects for a positive decision from the SEC. A negative decision would be a tremendous disappointment after so many years of convergence work. Such a decision, however unlikely, would delay our progress, but it would not stop it. The momentum behind adoption of IFRSs is now too powerful, and too important to be rolled back.

This is remarkable progress in less than 10 years. Europe’s strategy of providing international leadership in financial reporting has been vindicated. However, that does not mean the IASB can take European support for granted.

That is why the IASB consults widely with European stakeholders in the development of new IFRSs. We have
developed strong relationships with the European Financial Reporting Advisory Group (EFRAG) and the Commission. We consult with European national standard-setting organisations across the member states, and we seek input from European investor and preparer representative groups and others as part of our standard-setting activities.

Despite the frequency and intensity of this dialogue, there will be times when we disagree. Europe quite rightly has Europe’s interests at heart, whereas the IASB has to consider input from around the world. Even within Europe there is often disagreement on accounting matters between individual European member states, or between European investors and preparers.

Where disagreement happens, the onus is on the IASB to demonstrate that the choices we have made as part of our standard-setting activities are based on well-informed, sound judgement with appropriate due process and oversight.
We will continue to increase the sense of trust and buy-in among those who have adopted our standards. We will continue to strengthen the institutional relationships between the IASB and Europe, in the same way as we are doing in other parts of the world. That is how we, as an independent standard-setter, must reciprocate your trust. This will continue to be a priority of the IASB as the organisation evolves into a global standard-setting authority.

The financial crisis and accounting standards

The second topic I would like to address is the relationship between accounting standards and the financial crisis.

This is a subject that deserves far more time than is available in these brief opening remarks. But I do believe some context would be helpful before we discuss the more specific aspects of our work.

The crisis was caused by a collapse of business standards and a failure of macro-economic policies. Failures in regulation allowed the resulting huge risks to grow unnoticed until it was
too late. In many cases there was insufficient transparency for investors to be fully aware of the risks they were taking.

It is unbelievable that this happened in the first place, and we cannot allow this to happen again. In this regard, financial reporting has an important role to play.

Transparency is what gets us accounting standard-setters out of bed in the morning. The highest levels of transparency allow users of financial statements to peer into the darkest corners of a company’s financial position.

Transparency is the single biggest contribution the accounting profession can make to the long-term stability of financial markets. It is a necessary precondition to long-term financial stability. Without it, measures to provide financial stability offer little more than a façade, allowing risks to grow unnoticed until it is too late to deal with them.

Transparency does not always paint a pretty picture. Much of the current economic volatility is deep-rooted. The CEO of
Deutsche Bank recently said “volatility is the new normality”.
The days of ‘risk-free assets’ are long gone, if ever they existed.

If volatility is indeed the new normality, how should accounting standard-setters respond? Should we artificially shield investors from learning of this underlying economic volatility? Or should accountants try to describe, as accurately as possible and with full transparency, this new normality?

Most people I speak with believe that financial reporting should tell it how it is, rather than how we would like it to be. If the emperor really has no clothes, then it is the responsibility of financial reporting to say so, no matter how unpopular the truth may be.

There is however one important caveat to this. Asking accountants to describe economic volatility is one thing, but we should be careful that in doing so financial information does not become the source of economic volatility. For that reason the IASB has always remained pragmatic about which
measurement techniques to adopt. We know there is no one right answer and therefore we have always employed a mixed measurement approach, combining historic cost with fair value. That is why we have recently completed the reform of our fair value measurement standard that provides new guidance on illiquid markets. It is why we are proceeding with caution in the reform of financial instruments accounting. Our upcoming hedge accounting rules will prevent artificial accounting volatility to companies who hedge their risks. Accounting should not mask volatility, but neither should it be the source of it.

**Conclusion**

Members of the Committee, I am grateful for your attention. We do indeed live in interesting times. We all need to work together to address the many deep-rooted problems facing the global financial system.

My commitment to you is that the IASB will continue to work in close co-operation with European stakeholders, including the
Commission and the Parliament. We will seek opportunities to deepen our engagement with you, and to play our part in reinforcing investor confidence in financial markets.

There are many topics that I have not had time to address in these brief opening remarks. I would be delighted to answer any questions you may have.

Thank you.