Hans Hoogervorst speech, Korea, April 2012

Ladies and gentlemen, honourable guests, I would like to thank you for the opportunity to address such a distinguished audience.

I am grateful to Duck-Koo Chung, Trustee of the IFRS Foundation, and to OuHyung Kwon, President of the Korean Institute of Certified Public Accountants for your encouraging opening remarks.

I am also grateful to Chungwoo Suh for his comments. Of course, Chungwoo is a newly appointed member of the IASB, so his job is to say nice things about our organisation!

This is my 2nd visit to Korea and my 5th trip to Asia since becoming Chairman of the IASB nine months ago. In the last six months I have visited Asia more times than any other region, including the United States. I believe this also true for most of our Board and senior staff.

There is nothing surprising about this. The IASB is firmly on the path to becoming the global accounting standard-setter. That means making sure we consult with every part of the world in equal measure. Asia is home to many of the world's fastest growing economies, and we need to make sure our standards meet your needs.

There are various ways we go about this work.

First, at a national level we work in very close cooperation with local organisations such as the Korea Accounting Standards Board (KASB) and the Korean Institute of Certified Public Accountants (KICPA). This cooperation will deepen further with the appointment of Chungwoo Suh to the IASB.

Second, we are working at a regional level with the Asia Oceania Standard-Setters Group (AOSSG), to understand the collective views of the region as a whole. The AOSSG has been up and running for several years and serves as a very helpful sounding board for the IASB. Later this year, the IASB will open its first office outside of London. The office, located in Tokyo, will be fully staffed and will serve the needs of the entire Asia-Oceania region.

Third, we have established an Emerging Economies Group (EEG), of which Korea is a founding member.

The EEG is led by Wayne Upton – the IASB's Director of International Activities, who is with me today. This is a very important group. It provides an excellent forum to understand the challenges emerging economies can have when applying certain aspects of IFRSs such as fair value measurement. Taken as a whole, Korean interests are well represented at all levels of our organisation.

Let us now move on to the business of the day. As you may know, the IASB is approaching the completion of its convergence programme with the FASB. It is ten years since the boards set out on this path, and a great deal has been achieved. We have four remaining convergence projects to complete – leases, revenue recognition, financial instruments and insurance accounting.

I am hopeful that we can complete this work in relatively short order, although I have learned that in accounting, short can be rather long.

I believe a timely decision by the SEC about US adoption of IFRSs will serve to speed up the remainder of convergence. Needless to say, I am looking forward to that moment.

So, what then? What do the next few years look like for the IASB? What will our priorities be, and how should we use the limited resources at our disposal?

In the last year or so, the IASB, as well as our Trustees, have been giving serious consideration to these questions.

The Trustees have recently completed their strategy review and the IASB is nearing the completion of its first public consultation on our future agenda.

Today I would like to focus on the likely outcome of that consultation.

IASB future agenda

In 2011 we published for public comment a consultation document that set out some ideas, but more importantly solicited feedback on the IASB's future agenda.

In parallel, the Board and staff have held numerous meetings, round-table discussions, webcasts and other outreach activities. The consultation has yet to conclude, but there are some common themes that are easy to spot.

The most common feedback is a request for a period of stability. I do not think we will get it, but the request for a period of calm is understandable. Ten years ago few economies used international standards. Now, more than 100 do. At the same time, many of our standards have been re-written. That is ten years of unprecedented change. It is not surprising that our friends around the world want some time for the dust to settle.

That is why determining the IASB's future work programme will involve cherry-picking the most important areas where change is required. Let's fix what needs fixing, and no more.

So what does that mean for our post-convergence work programme? Well, many of these areas fall naturally out of the feedback from the consultation.

First, there is almost universal support for completing revisions to our conceptual framework. This framework serves as a point of reference for the IASB's decision-making. Where choices are not clear-cut, the framework serves to encourage the IASB to make decisions that are consistent across the standards. The framework is also an important reference for companies when applying principle-based standards.

We already have a framework that works reasonably well. However, areas such as Measurement are still less than perfect, to put it mildly. It is easy to understand why this is the case. After all, measurement is the most judgmental, difficult and politicised part of accounting. We need to bring more rigor and clarity here, but it will be an extremely arduous task which will require a lot of brainpower and courage.

Second, many of our constituents are complaining of disclosure overload. This is not entirely due to financial reporting.

The plain fact is that businesses have become more complex. It is the job of financial reporting to describe this complexity, not to mask it.

Not all disclosures provide useful information to investors. Standard boilerplate responses are more about ticking boxes than helping investors really understand what is going on. This is an issue that preparers, auditors, regulators and standard-setters will have to tackle together.

For our part, we need to make sure that disclosure requirements are appropriate. Bottom up; each individual disclosure requirement may have made sense when the standard was first introduced. However, from a top-down perspective do the disclosures in totality improve the clarity of financial reporting, or do they make it more difficult to really see what is going on?

During the last –extremely fruitful- meeting of the Advisory Council there was a surprising consensus on this issue. Almost everybody agreed there will not be many quick wins.

One investor's disclosure clutter is another investor's golden nugget of information. Taking information away is never easy. Nevertheless, feedback from the agenda consultation indicates that this is an important area for many respondents – particularly smaller listed companies, many of whom believe that the disclosure overload falls disproportionately on their shoulders.

Thankfully, we are not starting from scratch. Some excellent preparatory work has already been completed by a number of accounting standard-setting bodies around the world. This work will help us as we review our approach to disclosure.

Next, we must decide what to do with Other Comprehensive Income (OCI). Everybody is asking us to shed more light on it. What is the meaning of OCI? What should be in it? How does it relate to Profit or Loss (P&L)? Should we allow recycling?

In the past year I have witnessed many heated discussions on this subject. It struck me that those who are the biggest fans of the P&L, often want to put as much as possible in OCI.

That is, as long as it can be recycled to earnings in due time, of course. It is impossible for me to anticipate at this time what the outcome of these deliberations will be. All I can say at this time is that the juxtaposition of the P&L and OCI often seems counterproductive to me.

I do not think it is right to regard OCI as a largely irrelevant number which should preferably be buried in the notes. True, Other Comprehensive Income is often of a less certain nature than Profit or Loss.

But that does not make OCI meaningless. Especially for financial institutions with large balance sheets, OCI can contain very important information. It can give indications of the quality of the balance sheet.

It is very important for investors to know what gains or losses are sitting in the balance sheet, even if they have not been realised. OCI can give information on duration mismatches between assets and liabilities; it can signal sensitivity to interest rate fluctuations.

Since controlling the volatility of the balance sheet is a core task of the management of financial institutions, OCI can indeed be a very important performance indicator.

While providing a clearer conceptual definition of OCI we will also have to tackle the thorny issue of recycling. Around the world there are many supporters of recycling. The main argument for recycling of OCI is that it ensures that the total amount of profit or loss will ultimately be equal to the total amount of cash flows.

It is a pretty powerful argument. Still, the IASB has never been very enthusiastic about recycling. One of the main reasons for our reluctance is the scope for earnings management in the timing of realising gains and losses. That is why investors often demand to see profit or loss before recycling where recycling is permitted. They know recycling has the potential of clouding the true performance of an entity.

I am sure we will have many interesting and fierce discussions on this topic in the coming years.

This is a topic very close to my heart and I am very much looking forward to beginning work on this project. If we succeed in delivering a firmer theoretical underpinning of OCI, I am sure its usefulness to investors as a performance indicator will be enhanced.

Apart from these 'grand themes' we will probably take on board some smaller projects, such as agriculture, business combinations under common control, hyperinflation and rate-regulated industries.

We have to draw the line somewhere. The experience of the last few years should remind us of the perils of trying to do too much at one time. At the same time, we cannot simply put on ice for three years issues that are causing problems in different parts of the world. For example, I am well aware of Korea's desire for the IASB to update our standard on foreign currency translation.

That is why we have decided to introduce a new 'research phase' to our work programme under the leadership of Alan Teixeira, the IASB's Senior Director of Technical Activities. The research phase of our agenda will become the place to 'incubate' projects before they are considered as candidates for the IASB's work programme.

However, we have no plans to establish an IFRS university on 30 Cannon Street. We have neither the means nor the ambition to do so. What we can do is to define the parameters of the research work, but we will invite other accounting standard-setting bodies to work with us to do the research and report back their findings.

Foreign currency translation is a good example of a project that may come onto the IASB's research agenda. The KASB has already done a great deal of excellent research on this topic, as has the

Emerging Economies Group. However, I am also aware that views are mixed on how we should proceed with this project.

We will look to the KASB and others to further develop this research under the auspices of the IASB's research agenda. In effect, we would ask the KASB to do the ''heavy lifting' that normally takes place during the discussion paper phase of our standard-setting work. It will enable us to understand national and industry perspectives earlier in the process.

In turn, this will reduce the development time for a new IFRS should the project migrate onto the IASB's work programme but in a way that does not overload the Board.

The introduction of a research phase to our work stream, delivered by other accounting standard-setting bodies within the parameters set by the IASB, is an excellent example of our desire to formalise and strengthen our relationships with other organisations such as the KASB.

Conclusion

Ladies and gentlemen, I am grateful for your attention.   We have important work to do and your support is very important to us.

Thank you for your time. I wish you a very successful conference.