

Dispelling myths about IFRS: Introductory remarks by Hans Hoogervorst, Chairman of the IASB

Minister Nakatsuka, President Hagiwara, distinguished guests. It is a great honour to be here today on this momentous occasion for the IASB. Today we are opening our first office outside of London, and the Asia-Oceania region is the perfect place for this facility. That is why I am delighted to be here today. To thank the Japanese Financial Accounting Standards Foundation for their support in helping to establish this office, and to assure you of my commitment to making sure that it is a remarkable success.

First of all, Asia-Oceania is the most dynamic economic region of the world. For the IASB it is a privilege that so many jurisdictions and companies in this region want to use our accounting language to speak with investors around the world. The IASB needs a presence here to ensure that the financial reporting standards we are developing are fully compatible with the needs of this important region.

Second, in the field of financial reporting, Asia-Oceania has some really smart thinkers. We at the IASB always look forward to comment letters and other input received from this part of the world. We can rely on this input to be of very high quality, expressing some very clear thinking. We need to tap better into this thinking through this office.

Across the Asia-Oceania region you have a rich diversity of 25 independent voices. The great work of the Asia-Oceania Standard-Setters Group is helping to synthesise these national views and where possible, trying to express an Asia-Oceania view to the IASB. We truly hope that this office will contribute to further deepen cooperation and communication in this region. We also need to be here to make sure Asia is fully plumbed into the IASB's day-to-day activities.

The Asia-Oceania office will also help the IASB to make itself better understood in this region. As a relatively young organisation we still have a lot to do in this respect. In my frequent travels around the world, I have noticed that there are still quite a few misconceptions about the IASB that need to be put to rest. Now that I am here, let me take this opportunity to dispel just a few of these myths.

One persistent myth about the IASB is that we (perhaps secretly) would only be interested in fair value. The truth is that we have always been proponents of a mixed measurement model. While our colleagues at the FASB at one time proposed a full fair value model for financial instruments, the IASB decided from the outset that a mixed attribute model would be more appropriate. We understand full well that while fair value measurement is very relevant for actively traded financial instruments, for a manufacturing company it does normally not make a lot of sense to fair value its Property, Plant and Equipment.

Currently, we are reviewing the measurement chapter of the Conceptual Framework. We will try to develop clear principles on which measurement technique to use in what circumstances. We have some very tough nuts to crack and the outcome of this exercise is far from clear. However, it is most unlikely that it will result in a choice for fair value as the single measurement technique. So the fair value myth can be put to rest.

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The second myth I would like to briefly touch upon is that the IASB is only interested in the balance sheet, and that we aim to replace net income with comprehensive income. Again, I see no evidence of such bias. We do not designate one type of information, about balance sheet or about profit and loss, as the primary focus of financial reporting. Both are indeed complementary. We also view net income as an important performance indicator. We know comprehensive income contains many different items that users need to analyse separately.

Having said that, we are also aware that we do need to clarify the basis upon which different gains and losses are reported in different ways. Other Comprehensive Income has become a very crowded parking spot for sensitive accounting problems. The fact is that nobody knows what OCI really means. It is our duty to tidy things up and to make income presentation more meaningful. In the review of the Conceptual Framework we will try to do so. Wish us luck!

In the meantime, rest assured that we have no plans to eliminate profit or loss as a measure of performance or to make comprehensive income the only measure of performance. So, once again fact is somewhat different from fiction.

The two preceding misconceptions have led to a third persistent myth, namely that IFRSs are only of use to the financial whizz-kids in London and Wall Street. This myth holds that our standards are incompatible with the culture of countries with a strong manufacturing tradition. Again, this is not true. Around the world, the vast majority of companies using IFRS are normal businesses involved in normal business activities such as manufacturing, retail and the services sector. Since the global financial crisis first broke out in 2007, media coverage of IFRS has been dominated by what it means for financial institutions. Media coverage is one thing, but the reality is that IFRSs are used day in, day out by businesses in the 'real economy'.

The fourth and final myth I want to touch upon is that the IASB is sometimes perceived to be an ivory tower, dominated by Anglo Saxons in far-away London. Fortunately, this criticism seems to abate as we are strengthening our efforts to engage with our constituents around the world.

Indeed, the IASB is not a foreign organisation but a truly international one. We have staff and board members from around the world, who are deeply committed to the public interest. We only have one mission: to develop high quality accounting standards that serve our constituents around the world. We rely heavily on input from jurisdictions around the world when setting our standards. Our relationship with national standard setters and regional bodies such as the AOSSG will soon be deepened by the creation of an Accounting Standards Advisory Forum.

The opening of the Asia-Oceania office is another moment of huge symbolic significance. It demonstrates the commitment of the IASB to be a truly global organization.

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You can count on our continued commitment to this very important region and its constituents. In closing, I would like to thank once again Japanese authorities and the Japanese Financial Accounting Standards Foundation for making this office possible.