Michel Prada, Chairman of the IFRS Foundation Trustees

IFRS Foundation conference, Frankfurt

27 June 2012

Thank you Ian for your opening comments and your kind introduction.

Good afternoon, Ladies and Gentlemen.

It’s a great pleasure to participate in this important event here in Frankfurt. I’m happy to have the opportunity to update you on recent and future developments at the IFRS Foundation, six months after I had the honour of being elected Chairman of the Foundation Trustees.

I deliberately use the word ‘honour’ because I am fortunate to be following in the footsteps of some quite remarkable people, among them Paul Volcker and my good friend Tommaso Padoa-Schioppa, who sadly passed away at the end of 2010.

As you may know, the Trustees are responsible for the governance of the organisation and oversight of the IASB. We are, inter alia, responsible for designing the strategy, providing the financing and resourcing of the organisation, and, most importantly, protecting the IASB’s technical independence while ensuring that their standard-setting activity follows an open, inclusive, thorough and robust due process.

Among my fellow Trustees, we have former Finance Ministers, Presidents of Central Banks, business executives, securities commissioners and academics from around the world, all united in our shared commitment to the goals of the Foundation. I am delighted that my friend and fellow Trustee Clemens Börsig will be speaking after I finish.

As a former Chairman of the Autorité des Marchés Financiers (AMF), the French securities regulator, and former Chairman of the Technical Committee of IOSCO, I was myself involved at the inception of the organisation in May 2000, when IOSCO endorsed the core set of International Accounting Standards (IASs) developed by the IASB’s part-time predecessor, the International Accounting Standards Committee. I served on the committee that selected the first set of Trustees, and it is fortuitous, but also extremely rewarding, to return to Chair the current group of Trustees.

The path towards global standards

When we set out on the path towards global standards for accounting and financial reporting more than a decade ago, we could not have imagined the level of success achieved in the following 10 years. Back then, no major economies used international accounting standards. In fact, at that time, if you wanted to use an internationally-recognised, high quality accounting standard, the only game in town was US GAAP.
Nonetheless, the globally interconnected nature of financial markets meant that a national approach to financial reporting was no longer considered appropriate.

As Paul Volker, the first Chairman of the Foundation used to say: “international accounting standards are needed but can’t be drafted in Connecticut”.

Investors seeking diversification and growth wanted to compare and contrast investment opportunities on an equal basis. Multinational companies wanted to eliminate the burden of a multitude of local reporting requirements and they sought the freedom to raise capital anywhere in the world. Meanwhile, as securities regulators, we were well aware of the headache of protecting domestic investors when they are investing internationally and have to deal with different and sometimes contradictory standards.

Indeed, several events came together to confirm the relevance of this strategy, to accelerate the work of the IASB and to highlight its importance to the global financial system.

Firstly, after several decades of failed attempts to develop a pan-European set of accounting standards, Europe decided in 2002 to switch tack and instead adopt, from 2005, the fledgling IASs, now known as International Financial Reporting Standards or IFRSs, for the consolidated accounts of listed companies on regulated markets. Overnight, this transformed the IASB from an interesting but somewhat obscure accounting think-tank into Europe’s accounting standard-setter.

Secondly, in the United States a series of accounting scandals challenged the infallibility of US GAAP, which led the US Financial Accounting Standards Board (FASB) to consider its own fundamental reform of its standards. It made perfect sense for the IASB and the FASB, under the Norwalk Agreement of 2002, to reform IFRSs and US GAAP in parallel, and so began a decade of work to improve the respective standards and bring about their convergence.

Thirdly, the rapid growth experienced by emerging economies meant that they too needed high quality, internationally-recognised financial reporting standards. Many of these economies have well-developed capital markets that are home to major multinational companies. Most have the ambition of developing their own global financial centres, and the use of IFRSs is increasingly seen as a prerequisite for such financial centres to exist.

Finally, the global financial crisis that began in 2007 and continues today provided a very clear illustration of the globally connected nature of financial markets and the pressing need for a single set of high quality global accounting standards. That is why repeated G20 communiqués, including the one that was issued at the recent G20 Summit in Los Cabos, have supported the work of the IASB and called for a rapid move towards global accounting standards.
Thanks to the achievements of the last decade, IFRSs are firmly on the path to becoming those global standards.

Today, companies in more than 100 countries are required or permitted to report using IFRSs. From this year, more than two-thirds of G20 members are required to use IFRSs, including, in the last two years, Brazil, Canada, Korea, Mexico and Russia. Almost half of Global Fortune 500 companies now report using IFRSs.

In those remaining economies yet to fully adopt IFRSs, we continue to see substantial progress being made.

I recently visited China and Japan to better understand their own preparations towards adoption of IFRSs.

China has already substantially reformed its own financial reporting standards through what they call “a continuous convergence process”, which they understand as a process for incorporation and the differences between those standards and IFRSs appear now to be very small. China’s commitment to IFRSs is hugely impressive and it is easy to understand why a country with 14 million accountants is going to take some time to complete its full transition to IFRSs. China is also actively involved in the organisation and already provides the secretariat for the IASB’s Emerging Economies Group and I have no doubt that China will play a full role in the future development of IFRSs.

I was also fortunate enough to spend some time in Japan, meeting with all relevant stakeholders.

Once again, there is no doubt in my mind of Japan’s long-term commitment to IFRSs. Japan has continued to support the work of the IFRS Foundation and works in very close co-operation with the IASB throughout the standard-setting process.

Japan already permits the voluntary use of IFRSs for domestic companies. The number of Japanese companies electing to report using IFRSs is expected to increase rapidly over the next few years. Regardless of a formal Japanese decision to transition to IFRSs, once you have the largest, internationally-focused Japanese companies using the standards, then you have de facto adoption of IFRSs.

Later this year I will visit India. The Trustees stand ready to support our Indian colleagues in their own transition to IFRSs.

Also later this year, the IFRS Foundation will open an Asia-Oceania liaison office in Tokyo. This first office outside of London is a clear indication of our desire to support jurisdictions across the Asia-Oceania region in their transition to IFRSs, as well as those economies that have already adopted the standards.
Last, but not least, one of the most anticipated decisions is whether and how the United States will incorporate IFRSs into its own financial reporting regime. The IASB and the FASB have spent 10 years since the Norwalk agreement laying the groundwork for this decision through a dedicated and fruitful effort of convergence. Recognising this work, in 2007, the US Securities and Exchange Commission (SEC) permitted foreign companies with a US listing to report using IFRSs and began to consult on the possibility of also adopting IFRSs for domestic companies. Today, the SEC oversees more than 100 companies listed on US markets that report using IFRSs.

We await with interest the SEC’s final staff report on a pathway towards IFRS adoption and look forward to a positive outcome to the SEC’s deliberations.

This is truly remarkable progress in little over 10 years. During the remainder of the conference you will hear about the many challenges facing the organisation, including the completion of the remaining convergence projects and our work to encourage those remaining jurisdictions to come fully on board. While recognising these challenges, I also ask you to keep in mind this remarkable progress that I have described. Along historical trends, the glass is most definitely more than half-full!

**Becoming the global accounting standard-setter**

So what does the future hold for the IFRS Foundation? How do we consolidate the achievements of the last decade? What steps need to be taken to support the transition from international to truly global financial reporting standards? And in turn, what steps need to be taken for the IASB to become the globally recognised accounting standard-setter?

In 2010 the Trustees, as well as the IFRS Foundation Monitoring Board, to whom the Trustees report, both set out to answer these questions by initiating independent but co-ordinated reviews.

The Monitoring Board brings together public authorities and provides political legitimacy and accountability to our organisation. It set out to address institutional aspects of the governance of the IFRS Foundation, including its own composition and the relationship between the three tiers of the organisation—the IASB, the Trustees and the Monitoring Board—that are today the basis of a well-accepted architecture.

The Trustees began a far-reaching strategy review that looked at the IFRS Foundation’s mission, standard-setting process, governance and financing.

Both the Monitoring Board and Trustees consulted widely, and in February 2012 we jointly published the conclusions of our respective studies.

These opening remarks do not provide sufficient time to describe the 24 pages of the Monitoring Board’s governance review or the 25 pages of the Trustees’ strategy review.
If you are interested in the future direction of financial reporting, I strongly encourage each of you to download these reports from the website, because they map out our respective activities for the coming years.

However, I would like to signpost what I consider to be the three most important conclusions of the Trustees’ strategy review.

First, it was clear from the feedback we received that there are efficiencies to be gained in the way that IFRSs are developed. Over the last few years, the Trustees have overseen a substantial increase in the number of the IASB’s technical staff. At the same time, we have seen a corresponding increase in the depth and breadth of the IASB’s consultation and outreach activities.

However, as the IASB adapts to become the global accounting standard-setter, we must also recognise that no single organisation can do this on its own.

Standard-setting has long been a collaborative exercise. The quality and robustness of many recently developed standards owe a great deal to the many organisations and individuals who offer advice and guidance to the IASB throughout the life cycle of the standard-setting process. Perhaps the best example of this is the interaction between the IASB as an international standard-setter and those national and regional organisations with an interest in accounting standard-setting.

At a national level, the IASB has continued to work in close co-operation with the FASB, the Accounting Standards Board of Japan (ASBJ) and many other national standard-setting bodies, such as those that exist in Europe.

At the same time, we have seen the emergence of other regional bodies with an interest in standard-setting.

Some of these are well-resourced organisations such as the European Financial Reporting Advisory Group (EFRAG), while others are less formal regional groupings such as the Asia-Oceania Standard Setters Group (AOSSG) or the Group of Latin American Standard Setters (GLASS).

Each of these national and regional bodies has a great deal to contribute to the IASB’s standard-setting activities. The Trustees’ strategy review and the completion of the convergence programme with the FASB present an opportunity to give further consideration to the future relationship between the IASB and national and regional bodies.

The Trustees’ strategy review foresees new ways of working with these groups. It calls on the IASB to establish more structured and formal relationships with the standard-setting community around the world and to engage these bodies early in the process of standard-setting. The benefit will be better integration of the global perspective into the standard-setting process and perhaps a reduction in the risk of non-endorsement of a new standard.
The review also describes possible ways to more fully integrate the activities of these organisations into the IASB’s formal standard-setting process. This work, led by Yael Almog, our recently appointed Executive Director, is now in progress and we are starting to discuss its details in the next few months.

Second, the Trustees’ strategy review recognises that the goal of global accounting standards will be illusory if those standards are not endorsed and enforced on a globally consistent basis. That means everyone adopting the same set of standards, and those standards being applied in the same way.

The IASB is not a regulator and does not have enforcement capacities. Neither has it the resources or the expertise to monitor global adherence to the standards. Thankfully, there is an existing organisation, the International Organization of Securities Commissions, or IOSCO, that does and deals with investor protection and quality of financial information.

The IOSCO has recently completed a restructuring of its leadership and operational activities. As a former Chairman of the IOSCO Executive and Technical Committees, this is an organisation that I know well and which can play a leading role in monitoring the implementation of global accounting standards.

We have already begun discussions with IOSCO about how we can deepen our co-operation. Last month, Yael and I travelled to Beijing to attend the annual IOSCO conference, where I had the privilege of joining a panel discussion on international standards. The newly appointed Chairman of the IOSCO Board is Masa Kono, who also serves as Chairman of the IFRS Foundation Monitoring Board. At a technical level, IOSCO’s new policy committee on accounting, auditing and financial reporting is well placed to work in close co-operation with the IASB when considering consistent application of the standards. The IOSCO network is also well placed to provide extremely valuable practical input on how IFRSs are working in different parts of the world, which in turn will benefit the work of the IFRS Interpretations Committee and the IASB’s post-implementation review of major new Standards.

There is a great opportunity to move forward and I have high hopes of a very successful ongoing partnership with IOSCO.

Finally, the Trustees’ strategy review recommended a series of further enhancements to the IASB’s standard-setting process. These enhancements build on the already impressive due process framework and include recommendations on the transparency of the IASB’s agenda-setting process, the development of an agreed methodology for field visits and effect analysis and more rigorous oversight of due process through the Trustees’ Due Process Oversight Committee, or DPOC.

The Trustees have already started to put these recommendations in place. For example, last month we appointed David Loweth, a former Technical Director of the United Kingdom Accounting Standards Board (ASB), to the position of Director for Trustee Activities.
David’s appointment provides the DPOC with its own dedicated resource and further enhances the separation of Trustee oversight from the work of the IASB.

I have described three of the main findings of the strategy review. The Trustees are committed to implementing all of the recommendations of both reviews in full. We have already published for public comment the revised IASB *Due Process Handbook* and will shortly publish revisions to the IFRS Foundation Constitution.

**Conclusion**

Ladies and gentlemen, in the brief time permitted I am pleased to report that we are continuing to make substantial progress. The IFRS Foundation annual report provides a fuller description of the topics that I have touched upon today.

As a Trustee, I am not supposed to deal with the technicalities, but I am fully aware, like my fellow Trustees, of the difficult questions that the IASB has to deal with and of the quasi philosophical discussions that take place worldwide when designing global standards.

A few days ago Hans Hoogervorst, Chairman of the IASB and also a former securities regulator, delivered a speech in Amsterdam to address this challenge and I encourage you to read this speech on the website. His words remind us of the fundamental objective and of the intrinsic complexity of accounting and financial reporting: to provide those market participants who do not have direct access to basic data with a true and fair representation of the situation and performance of companies that they invest in or deal with.

This is a difficult task that has to deal with the rule of relativity of value and to confront different views and business models.

The governance and strategy reviews build upon a decade of achievement and chart a course for the IFRS Foundation to master these complexities with full transparency and in cooperation with all parties involved, and for the IASB to be recognised as the truly global accounting standard-setter.

The formalisation of the IASB’s relationship with national and regional bodies with an interest in accounting standard-setting will increase the effectiveness of our work. The greater focus on the implementation of our standards, in part through an enhanced relationship with IOSCO and other international organisations, will help us to achieve the goal of truly global accounting standards. In addition, the enhancements to the IASB’s due process will further enhance confidence in the standard-setting process and will in turn improve the robustness of the Standards.

I thank you for your attention, I wish you a very successful conference and I now pass you to my fellow Trustee, Clemens Börsig.