

Keynote speech by Michel Prada, Chairman of the IFRS Foundation Trustees

IFRS Foundation Trustees Meeting, Sydney

10 April 2014

INTRODUCTION

Ladies and gentlemen, distinguished guests, on behalf of the IFRS Foundation Trustees, together with the Institute of Chartered Accountants in Australia and CPA Australia, it is my pleasure to welcome you to this event, and to what promises to be a lively and informative discussion about IFRS, the IASB and the path towards global accounting standards.

The Trustees of the IFRS Foundation are responsible for the oversight and governance of the IASB. We meet four times a year in different parts of the world to discuss such matters, and that is what we have been doing today. An important part of these visits is the opportunity for the Trustees to meet with important stakeholders in our work. That is why events such as this are so valuable to us: to hear directly from you about what the Foundation and the IASB do well, and where there is room for improvement. Australians are known for their forthright views. Tonight, I hope that you will not hold back!

I would like to thank the Institute and CPA Australia for co-hosting this event with us. Our links with these important organisations go back many years, as does our shared belief in the importance of global accounting standards. I also want to express my thanks to our former Australian Trustee Jeff Lucy, and his successor, Lynn Wood, Chair of the Australian Financial Reporting Council. It was Jeff that persuaded the Trustees to meet here in Australia, while Lynn is already extremely active as a Trustee. I thank both Jeff and Lynn for your commitment and dedication to our work.

THE PATH TOWARDS GLOBAL STANDARDS

This is the first time that the Trustees have met here in Sydney. The city holds a special resonance for me. Fourteen years ago, IOSCO – the international network of securities regulators – held their annual meeting here in Sydney. At that time, I was Chairman of the French market regulator and also Chairman of the IOSCO Technical Committee. During our meeting here in Sydney we endorsed for the very first time the use of international accounting standards for cross-border listings.

That decision served as a turning point on the road towards global adoption of IFRS. Before that point, the old International Accounting Standards, which had been developed by the part-time predecessor body of the IASB, had done a lot of good work developing the 39 “core standards”, but rather served as an international point of reference for the multitude of different accounting standards used around the world.

The decision by IOSCO led to the restructuring of what became the IASB and the revised mission for the IASB to develop in the public interest a single set of high quality global accounting standards.

Australia, New Zealand, Hong Kong, South Africa and of course Europe soon led the way with landmark decisions to make the transition from national to international standards, and the rest is literally history.

Today, IFRSs are well on the path to becoming truly global accounting standards. We know this to be true because the Foundation has recently completed a major research programme on the use of IFRS around the world.

We began by surveying jurisdictional authorities about their position on IFRS. We then validated these responses against information from the large accounting firms, securities regulators and others. Finally we went back to the jurisdictional authorities to cross-check our findings. As a result of this approach, we have a high degree of confidence in the veracity of the research. The results make most enlightening reading.

Of the 129 countries researched so far, nearly all have made a public commitment to IFRS as global standards. More than 100 of the 129 countries surveyed and more than 2 thirds of G20 members have already adopted IFRS for most or all domestic listed companies, while many of the remaining jurisdictions permit IFRS for at least some of those listed companies. Very few jurisdictions have made modifications to the Standards, and where they have, those modifications are regarded as being temporary to aid the transition process. So, we now have firm evidence that IFRS use is widespread, and that most jurisdictions are adopting IFRS in the right manner.¹

Of course, we should not paper over the fact that several G20 economies have yet to complete their own transitions to IFRS. But even here, progress is more advanced than many realise.

In the United States, the SEC already allows international companies listed on US markets to report using IFRS as issued by the IASB. More than 450 such companies already do so, and those companies have a combined market capitalisation exceeding five trillion dollars. In a way, the initial objective of IOSCO has been completed.

I was in the US two weeks ago for meetings with pretty much all of the stakeholders who are important to our work, including the SEC. During those meetings, I was struck by how much support there is in the US for our work. It was clear that US consideration of whether and how to move forward with domestic use of IFRS is still very much on the agenda. We should not be surprised that the world's largest national economy that has used sophisticated national standards for decades is taking its time, and we in turn will continue

¹ <http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-the-IFRS-jurisdictional-profiles.aspx>

to engage with the vast number of IFRS stakeholders in the US who have an interest in our work and also with a few leading global companies that have started their journey towards IFRS.

I have also spent a fair amount of time in Japan, and here progress continues at a fast pace. Japanese companies can already choose to apply IFRS, and they are doing so in increasing numbers. The Tokyo Stock Exchange has recently introduced a new index for Japanese companies and IFRS use is an important consideration for inclusion in the index.

China's accounting standards are already substantially similar to IFRS, while Hong Kong adopted IFRS at the outset. In Saudi Arabia, I spoke at a conference several weeks ago and it was clear in this region too that we are seeing substantial momentum towards IFRS adoption. We have recently heard positive messages in India, where preparations are under consideration for the adoption of new Indian Accounting Standards based on IFRS.

It would be wrong to claim that each and every country has fully completed its transition to IFRS. However, with the achievement of the IFRS profiles, we can for the first time state very clearly where each jurisdiction is on its journey to IFRS, while the findings of this exercise are highly encouraging. This is particularly impressive when you consider that IFRS has only recently reached its teenage years. And indeed we have reached the point where issues of implementation are becoming of the essence. Hence our new strategy to better engage with securities regulators and others to improve the consistency of implementation around the globe.

SUPPORTING THE G20 AGENDA OF GLOBAL GROWTH

To my mind, the big question is why has the IFRS project been so successful? I suspect that it is not entirely due to a love of the IASB or its standards. Far from it, and I happen to be a European!

No, fundamentally it is a question of economics rather than accounting. The thing to remember is that differences in accounting standards add no economic value or benefit to anyone, unless you are involved in the business of reconciliation... This is particularly relevant to a country such as Australia that faces both East and West. What is the economic value of having to cope with different sets of accounting requirements in different parts of the world? Not a lot.

What's more, experience has shown that far from being a tool of national competitive advantage, different accounting requirements only serve to diminish the attractiveness of a jurisdiction in the global market for capital. If your reporting requirements are excessively onerous then companies will look elsewhere in the world to raise capital, as we saw in the US shortly after the Enron scandal and the introduction of Sarbanes-Oxley.

On the other hand, if your standards are unfamiliar or lack rigour, then investors will be cautious of investing in your capital markets and corporates will suffer some kind of a credibility spread with regard to cost of capital. This is one of the main reasons why emerging economies have been keen adopters of IFRS and this has clearly been established in the Asia Oceania Region (where we have seen interesting Korean studies) and by Australian Academics.

As a consequence, accounting standards are best thought of as a global good, not as a tool for national competitive advantage. They play an essential supporting role, facilitating growth and promoting a sustainable and prosperous global economy.

Investors are able to allocate capital in the most efficient manner, comparing and contrasting entities on a like-for-like basis. Companies are freed from the costs of complying with different accounting requirements of each jurisdiction in which they operate, thus freeing up capital to invest in more economically useful activities that create jobs or drive global growth. The cost of capital is reduced through the removal of risk margins associated with accounting differences.

That is why our work fits squarely within the stated objectives of Australia's presidency of the G20 – to promote stronger, more sustainable and balanced growth in our economies – and this is why we believe it is so important that G20 leaders maintain their support for the strategic and medium term objective of a single set of global accounting standards. Momentum needs to be sustained if we wish to avoid differences in accounting standards serving as grit in the cogs of the global economy.²

THE IASB AS A GLOBAL STANDARD-SETTER

Of course, the evolution of IFRS becoming truly global accounting standards has also required an evolution in the IASB becoming a truly global standard-setter.

As Trustees, it is our responsibility to ensure that the IASB is fit for this purpose. Our organisation has evolved significantly since its creation in 2001. Two Constitution Reviews, two Strategy Reviews and one Monitoring Board Governance Review have resulted in the IFRS Foundation having the most sophisticated governance systems that I have ever experienced.

Today, the IFRS Foundation is one of the most highly transparent international organisations in the world. It has been independently assessed as having the most advanced stakeholder engagement activities among its international peers, while the sophistication of its due process is in my view second to none. Our approximately 140 staff originate from almost 30 different countries, with a good balance of skills from both developed and emerging economies. Finally, we have a plethora of advisory bodies and working groups to ensure

² https://www.g20.org/g20_priorities/g20_2014_agenda

that a wide array of viewpoints are heard and listened to as part of the standard-setting process.

Of course, the organisation does not get everything right, and there is always room for improvement. Despite the numerous governance innovations over time, we remain a young organisation and we are keen to hear views about how we can improve further.

That is why the Trustees will begin a third Constitution Review that will seek in 2015 public comment on further enhancements to the structure and efficiency of the IFRS Foundation. We have already identified several areas of focus. We intend to consult on the optimum size of the IASB, we will review, after two years of experience, our new technical advisory Forum, ASAF, and we will also seek feedback on further enhancements to the activities of the IFRS Foundation itself. We will also consult closely with our own Monitoring Board throughout this process, a body that is extremely important to us and of which Greg Medcraft, Chairman of ASIC and of the IOSCO Board, is an active member.

CONCLUSION

Ladies and gentlemen, I thank you for your time, and for your interest in our work. We have all come a remarkably long way since that landmark IOSCO meeting in Sydney. Although there is still plenty of work to be done, we are confident that we are on the right track.

I wish you a very enjoyable evening and I look forward to continuing our discussions over dinner. I will now hand you over to Narelle Hooper to lead our panel discussion.