

IFRS: 2015 and beyond

Date: 10 December 2015

Speaker: Hans Hoogervorst, Chairman, IASB

Venue: AICPA Conference, Washington DC, United States

Introduction

As always, it is a great pleasure being back in Washington DC at this important conference. It is here in DC that I first got acquainted with accounting more than thirty years ago. At the time, I performed credit analysis for a DC-based bank, just two Metro stops from here, up Connecticut Avenue. It was an experience that taught me a lot about both the importance and the pitfalls of financial reporting.

Some three years after I left the bank, unfortunately it went bust. This was not due to the quality of my credit analysis (or so I hope) but because the bank had unwisely lent a third of its balance sheet to Latin America.

The Latin-American debt crisis of the early Eighties nearly brought the banking system down, but interestingly the trend towards globalisation never stopped.

It took another calamity, the Asian crisis of the late Nineties, for securities regulators around the world to conclude that the transparency of international financial information needed to be improved significantly. They threw their weight behind international accounting standards and a few years later, the IASB was born.

But in the interest of time, let me jump from history to the present and tell you about what has happened with the IASB in the last 12 months.

Improving IFRS Standards

First, we have made good progress in further improving the quality of IFRS. As the decade-long convergence programme with the FASB is now ending, we have most recently delivered improved standards for revenue recognition and lease accounting.

The joint Transition Resource Group led to some fine-tuning of the Revenue Recognition Standard.

But Revenue Recognition remains a Standard with strong principles and sufficient guidance for preparers to make sound accounting judgements. It is a Standard that has confounded the sceptics

who thought that the differences between rule-based and principle-based cultures could never be reconciled. I think it is a huge success for all of us—and especially for investors—that companies around the world will be using essentially the same Standard for their top line. Few would have thought this possible 10 years ago.

In the second week of January 2016, the IASB will publish its Leasing Standard. Our standard is converged with the FASB's standard in its main objective, namely to put most operating leases on the balance sheet. These can no longer lurk in the shadows as off-balance-sheet financing.

Our Leasing Standard will be accompanied by a comprehensive effects analysis. This analysis will demonstrate convincingly that the Standard is truly necessary and that its benefits outweigh its costs.

I urge those who are still sceptical about the Standard to read our document. It is only 100 pages long and it will help you make a joyful start with your implementation process!

Asian progress during 2015

2015 also brought some very encouraging developments towards IFRS among the three biggest Asian economies.

As this slide shows, 116 jurisdictions around the world already require the use of IFRS.

However, in the last year we have also seen a substantial rise in IFRS interest among the major Asian economies.

In Japan, IFRS has been optional since 2010. Currently, over 100 Japanese companies, making up 25 per cent of the total market capitalisation, have adopted IFRS or are planning to adopt. Close to 200 more companies are seriously studying the adoption of IFRS.

These Japanese companies are as hard-nosed as any and they do not embrace IFRS because they love us so much. They tell us IFRS simply makes their life easier and less costly, both in terms of managing their subsidiaries abroad, as well as in managing relations with their international investor base.

India is in the process of adopting new accounting standards, known as Ind AS, that are substantially converged with IFRS. Most of the Ind AS are word-for-word IFRS, but some limited differences remain, so we have not yet included India in the list of 116 countries. However, giving credit where credit is due, these new Indian standards are very close to IFRS and will provide investors with much better information.

China decided ten years ago to converge with IFRS, with the terms of that work set out in the 2005 Beijing Agreement—which was modelled on the 2002 Norwalk Agreement with the FASB. A few weeks ago, we announced a substantial update to the Beijing Agreement.

The update calls for a joint working group to explore further steps to advance the use of IFRS within China, especially for internationally-oriented Chinese companies. This means that while a lot of Chinese companies already use IFRS for their listings in Hong Kong, domestic use will now also be explored.

United States

These positive developments in the major Asian economies mark huge progress for investors and preparers around the world. Companies that are based in IFRS jurisdictions can use one accounting language in an ever-expanding part of the world, including the United States.

A good example was the recent high-profile listing of Ferrari on the New York Stock Exchange. Listing in the US gave Ferrari a platform to attract US investment. Yet Ferrari was able to do this with home-country financial statements which are prepared in accordance with IFRS.

This is obviously beneficial to Ferrari, but it also increases the international appeal of the United States as a market for IPOs.

The lack of fuss about Ferrari's use of IFRS for its IPO in the United States shows how far we have come in the last decade. Indeed, for companies using IFRS, the world of accounting increasingly looks like a monolingual world. For all others, including investors, we have moved very close to a bilingual world, with only two languages: IFRS and US GAAP. That is not perfect, but it is a heck of a lot better than the Tower of Babel where we came from.

While we are happy with the still-growing IFRS family, I can assure you from personal experience that it is not a simple task to keep all the members of the diverse IFRS community happy. In fact, we know we cannot even begin to do so. If we did keep try to everybody happy, the world would soon revert to the accounting hodgepodge that we came from ten years ago.

So sometimes I believe that the best thing the IASB can do is to distribute unhappiness as evenly as possible around the world.

Joking aside, the progress we have reached in terms of adoption of IFRS is by no means guaranteed or irreversible. We also know that consistent application requires permanent attention and rigorous enforcement.

It takes a lot of hard work and extensive consultation to consolidate the progress we have achieved. Fortunately we are helped by the fact that most of our constituents know that the long-term benefits of having global accounting standards are much bigger than the short-term benefits of protecting local practices.

The next 12 months and beyond

In the final part of my speech I would like to make some brief comments about what lies ahead of us.

In the next 12 months, the IASB and the IFRS Foundation will complete two consultations on our agenda and on the effectiveness of our structures.

The outcome of these consultations will only become clear in the course of 2016, but certain themes will certainly emerge.

One of the challenges for the coming years will be to ensure that IFRS further strengthens its relevance in an ever-changing world. The world of financial statements needs to be the anchor of trust for investors, rather than the sugar-coated realm of non-GAAP measures. That means we must improve the communication value of financial reporting. We must make disclosures more effective and discourage boilerplate reporting.

We must improve performance reporting, making financial reporting easier to digest, without sacrificing the quality and rigour of our standards.

There are other issues to consider. How should financial reporting relate to broader issues of corporate reporting, such as integrated reporting, where sustainability and value creation are central themes? What about the impact of technology and Big Data on financial reporting?

These are all issues on which we seek your opinion in our current agenda consultation.

Closing

We ask you to continue working with us and to respond to our various consultations. We know that the next several years are unlikely to bring big progress towards domestic use of IFRS in the United States. Still, there are substantive American interests at stake. IFRS strips out significant costs for American investors, multinational preparers and global accounting networks. More generally, the US has a big interest in a strong infrastructure for the global economy, of which IFRS is an important part.

That's why we encourage you to stay engaged and help us in continuing to build our Standards in the future.