Ten years on, what have we learned?

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Introduction

Ladies and gentlemen, it is a great pleasure to be here with you today. Italy is of course the perfect place to discuss accounting standards, because the family history of International Financial Reporting Standards (IFRS) can be traced all the way back to your country. Double-entry bookkeeping was invented in the 13th Century in Northern Italy, two centuries before Franciscan Friar Luca Pacioli wrote the first handbook on it.

The International Accounting Standards Board (IASB) has very close and confident relations with the Organismo Italiano di Contabilità, which contributes very actively to our work. More specifically, we are very happy to have Alberto Giussani as an active participant in our Accounting Standards Advisory Forum (ASAF).

The topic of today's discussion is 10 years of IFRS in Italy, and across the European Union. So, what have we learned in those 10 years and how is this relevant to other jurisdictions?

In my view, three things:

- First, taking all things into consideration, IFRS has been a positive force in Europe. It has improved the quality and consistency of financial reporting across the European Union and has raised transparency to new levels.
- Second, despite what you may sometimes read in the press, the relationship between the IASB and Europe has matured over the years and is overall constructive. There will always be difficult issues to overcome. However, the level of co-operation and mutual understanding is now vastly superior to when we first started out, and that is beneficial for us all.
- And third, Europe's decade-long experience of IFRS has important lessons for other jurisdictions. I will highlight what I believe is the main lesson.

Let's discuss each of these points in turn.

Europe and IFRS

First, Europe and IFRS. To understand the magnitude of what Europe has achieved, it is important to look back at previous attempts to create a common set of European accounting standards.

Work on the 4^{th} and 7^{th} European Accounting Directives began back in 1965, with an objective of harmonising existing accounting practices in use across Europe. The big problem was that different European countries had distinct historical approaches to accounting.

Many European countries were used to law-based accounting standards aligned to tax reporting requirements. Others, such as Britain, the Netherlands and the Scandinavian countries, followed more of a case-based approach to establishing accounting practices. Some European countries felt comfortable with a principle-based approach, while many others were very rules-orientated.

These different historic preferences made the harmonisation process extremely difficult, which helps to explain the reason why the Directives lacked sufficient rigour to be taken seriously as a stand-alone set of accounting requirements.

After several decades of effort, added urgency came in 2000 from the European Lisbon Treaty, which called for an 'integrated financial services and capital market in the European Union'. Suddenly, the International Accounting Standards (IAS) developed by the International Accounting Standards Committee (IASC), the IASB's predecessor, received a new lease of life. They provided an off-the-shelf solution for Europe, and in July 2000 European Finance Ministers endorsed the European Commission's proposal to adopt IAS in 2005.

So in 2005, around 7,000 listed companies across 25 different countries simultaneously transitioned from national Generally Accepted Accounting Principles (GAAP) to IFRS. It was an achievement of immense proportions, because it involved companies, auditors and regulators across Member States, all facing challenges in transitioning to a new set of accounting requirements.

The task was further complicated by IFRS being a moving target. First of all, the IASB had to fix what it inherited, since many IAS were in need of improvement. Further change emanated from the IASB's joint work with the US Financial Accounting Standards Board (FASB) to achieve convergence between IFRS and US GAAP. These two factors resulted in a decade of almost continuous change in financial reporting requirements.

And this is what makes the results of the Commission's evaluation on a decade of IFRS even more impressive. No one likes change—least of all accountants. Yet, despite these challenges, more than

90 per cent of respondents to the consultation who expressed a clear view took a positive attitude towards IFRS.

The Commission's evaluation of the responses identified several key findings. It concluded that IFRS was successful in creating a common accounting language for capital markets. For companies, the benefits outweighed the costs while investors largely supported IFRS for improving the quality and comparability of financial statements.

As is to be expected, the evaluation also identified various recommendations for improvement. For the IASB, that included recommendations to strengthen our impact analysis, to deepen our co-operation with investors and to finalise work on our *Conceptual Framework for Financial Reporting*. We are making good progress in each of these areas, and we will continue to co-operate with the Commission and others going forward.

The IASB's relationship with Europe

This brings me onto my second lesson learned—the relationship between the IASB and European stakeholders. There are many reasons why relations between the IASB and the European institutions have at times been challenging.

The differences in accounting philosophies around Europe that I mentioned before did not disappear overnight. It was inevitable that they would sometimes crop up in the relations between the IASB and Europe.

Also, the IASB still had to build a proper due process to ensure that the voices of constituents around the world were properly heard and understood. A proper balance between independence and accountability of the IASB had to be found. That is a fine balance indeed. It took both the IASB and Europe time to test it, and in a sense, we are still testing it.

Despite these challenges, over the years the relationship has matured—to the benefit of all those concerned. In response to concerns expressed most loudly in Europe, but also felt elsewhere in the world, we have seen many enhancements to the governance and operating procedures of the IFRS Foundation and the IASB.

The level of outreach and stakeholder participation in our work has increased exponentially, at a project level. The biggest innovation of recent years is the ASAF, which serves as a very important advisory body to the IASB, consisting of national standard-setters and regional groups.

We have become much better at helping policymakers and others better understand and engage in our work. We are much better at seeking out, listening and responding to the views of stakeholders around the world, including here in Europe. And Europe deserves much of the credit for helping to make this happen.

Equally, I also believe that Europe has become more comfortable with its role and responsibilities within the international accounting community. Philippe Maystadt's report to the November 2013 ECOFIN made clear Europe's continued support for global standards and that Europe should have no ambition to develop a European variant of IFRS.

Of course, there will no doubt be future difficulties and disagreements. However, sharing common objectives means that we are able to work with European stakeholders and others around the world in a highly collaborative manner. A good example of this is our work with EFRAG to develop a common basis for undertaking studies of the effects of proposed Standards.

Lessons for other jurisdictions

My third and final point is that Europe's decade-long experiment has proved beyond reasonable doubt that a single set of high quality standards can indeed be adopted on a globally consistent basis. In other words, the experience has validated the IASB's mission of global standards for the world economy.

IFRS can be used effectively and consistently across all jurisdictions, including those of differing sizes and financial sophistication.

From an IFRS perspective, Europe has served as a testing ground for the global economy. Its 28 Member States are extremely diverse and have differing levels of financial sophistication and capital market depth. The differences in culture and legal environment between countries like Italy, France and the UK are bigger than those between the UK and say the United States. Despite these differences, IFRS-adoption in Europe is now a fait accompli.

Europe has also demonstrated how the adoption of a single accounting language can contribute to consistency in application. In the past decade, European regulators, now represented in ESMA, have made huge strides forward in promoting consistent application of accounting standards in Europe. Before IFRS, the absence of a common accounting language meant that they could not even compare notes. Now they can and they do, much to the benefit of investors around the world.

The success of IFRS in Europe has encouraged many jurisdictions outside Europe to adopt IFRS. Thus far, we have counted 116 jurisdictions that have adopted IFRS and we are still counting. The days that IFRS was almost exclusively a European project are over. The combined GDP of countries outside Europe using IFRS is now bigger than the EU's economy.

The big Asian economies are all moving our way: in Japan nearly 25 per cent of the total market cap is already using IFRS and a tipping point may be reached in the near future. India has recently substantially converged its accounting standards to IFRS. China already did so 10 years ago and now seems ready to take new steps towards full convergence.

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For all these positive developments, Europe can take a lot of credit. The European decision to adopt IFRS in 2005 provided IFRS with momentum and credibility. Investors around the world, and indeed, the public at large, owe a lot to this great display of leadership. We look forward to the European Union continuing its leadership role in global accounting matters and are confident that it will do so.