Introduction

Ladies and gentlemen, distinguished guests, it is an honour to be with you this evening. Tonight we are joined by members of the Canadian Accounting Standards Oversight Council and the Canadian Accounting Standards Board, the Trustees of the IFRS Foundation and members of the IASB. In the audience we have auditors, investors, regulators, preparers and other accounting standard-setters. Together, there is no accounting problem that we cannot solve!

Canada is a very important member of the global IFRS community. You have been a long-term supporter of our work – way before the IASB came into existence. Over the years we have benefited from Canadian Trustees, a Canadian member of the IASB, Canadian members of the Interpretations Committee, a Canadian Chairman of the IFRS Advisory Council and most recently, Canadian representation on our Accounting Standards Advisory Forum.

Because of this strong Canadian presence, your thoughts and ideas permeate throughout our Standards. We greatly appreciate your significant contribution to our work.

My opening remarks this evening will begin by focusing on the mission of the IFRS Foundation and the IASB. I will continue to provide you with an update on the progress being made towards global standards. Finally, I will make some closing remarks about a couple of projects on our work plan that are highly relevant here in Canada, namely revenue recognition and insurance accounting.

Financial reporting standards for the world economy

First, our mission statement. Until now, we did not really have one. Our constitution merely formulates ‘objectives’, the first of which is ‘to develop, in the public interest, a single set of high
quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles’.

This objective deals with the ‘what’, but not the ‘why’. Why is our work so important? How do we serve the public interest? Are accounting standards only of interest to investors and accountants, or has our work broader relevance?

In the last few months I have led a small project to distil our raison d’être into a few paragraphs. It has been an interesting project. We have held staff meetings to develop these words. They have been refined and improved with input from many others, including the Trustees and the Advisory Council. The mission statement does not change our constitutional objective, but it does help others, and ourselves, to better understand our role in the global economy. The reason we do what we do.

So, what does that mission statement say? You will see the mission statement on the screen behind me. The first paragraph really says it all. ‘Our mission is to develop IFRS that bring transparency, accountability and efficiency to financial markets around the world. Our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy.’ This is our mission in a nutshell.

The Mission Statement goes on to explain that our Standards bring transparency by enhancing the quality and international comparability of financial information. This enables investors and other market participants to make informed economic decisions.

They also strengthen accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. So our Standards provide information that is needed to hold management to account. IFRS is also of vital importance to regulators who play an important role in strengthening accountability in capital markets.

Finally, IFRS contributes to economic efficiency by helping investors to identify opportunities and risks across the world. The result is more efficient capital allocation. For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs. So IFRS brings economic gains to both investors and preparers.

This is the public good of IFRS—our contribution to the world economy. These words serve as a reminder, to all of us, to look beyond the pursuit of accounting ideologies or national interests. I look forward to discussing this further during the panel discussion.
Path towards global standards

So, our mission statement provides an important context for our work. It neatly frames our responsibilities as providing ‘financial reporting standards to the world economy’. How are we doing against this objective?

You will find the answer to this question in front of you in a small gift from the IASB. It is the latest version of the IFRS Pocket Guide, hot off the press. The guide provides an authoritative assessment of the use of IFRS around the world. It is less than a year since we published the first version, but it became out of date as more countries continued to make progress towards IFRS.

The Pocket Guide shows that of the 138 countries researched, 114 already require the use of IFRS for all or most publicly listed companies. Local adaptations are rare, and most countries have adopted IFRS in full and without modification.

In Europe, IFRS is now a decade-old news story. It is almost business-as-usual. The European Commission has just completed a survey of Europe’s experience of IFRS in the last 10 years. The vast bulk of responses to the survey spoke favourably of IFRS. Of the respondents giving a clear answer, 93 per cent took a positive attitude to IFRS. This is remarkable backing.

In Latin America, and also in Africa, IFRS has also become well entrenched. Pretty much every Latin American country requires the use of IFRS. The region has also firmly embraced the IFRS for SMEs. Brazil alone is estimated to have more than half a million users of the IFRS for SMEs. The same is true in Africa. All of the high-growth African economies are fully on board with IFRS.

In Asia, the dynamics of IFRS are still in full swing. Three-quarters of all countries across the Asia-Oceania region already require the use of IFRS for all or most publicly listed companies. It is true that some major Asian economies still have to complete their transition to IFRS. However, we have begun to see some very exciting developments in these countries.

Japan has permitted the use of IFRS since 2010. In the last two years, the voluntary use of IFRS has taken off explosively. Just last month IFRS overtook US GAAP as the main non-Japanese accounting standard in Japan. By the end of the year, it is expected that more than 100 Japanese companies will have completed their adoption of IFRS, or will have announced their intention to do so. Those companies represent around 20 per cent of the total market capitalisation. This progress is much faster than anyone had expected.

The Indian government has also begun its own convergence programme with IFRS. From 2017, listed Indian companies will be required to report using the new Indian Accounting Standards which
largely follow IFRS. We will continue to work closely with our colleagues in India and remain hopeful that Indian standards will end up being fully aligned with IFRS.

China is also a very important member of the IFRS family. Although Chinese accounting standards are not word-for-word IFRS, they are much closer than many people realise. In addition, more than 250 Chinese companies, equivalent to 30 per cent of the total Chinese market capitalisation, report using full IFRS for the purpose of their dual listings in Hong Kong. In most cases, the financial reporting differences of these companies when reporting using Chinese GAAP versus IFRS are negligible.

Here in Canada, IFRS has also become well-entrenched. Canada showed vision and leadership in financial reporting when it decided to adopt IFRS from 2011. Because of the close ties between Canada and the United States, I can understand that this was a big decision. The United States is Canada’s largest single trading partner, while companies representing around 60 per cent of the total Canadian market capitalisation are also listed in the United States.

Given these ties, it must have been especially disappointing for Canada that, since the momentous decision to allow foreign listers to use IFRS, there has been no further breakthrough for IFRS in the United States. The SEC is now pondering a ‘fourth way’ forward with IFRS and we will have to see what the exact proposals will entail.

The good news is that what many feared has not happened. As I just explained to you, the momentum of IFRS outside the United States has not gone into reverse, quite the opposite. So I believe Canada’s courageous decision to adopt IFRS has been more than vindicated.

The most remarkable thing about IFRS is not so much the number of countries applying it. It is that, contrary to what many believe or would like to believe, there are so few local adaptations. Our study shows that modifications are rare. Where they exist, they are mostly transitory in nature. I know of no other international economic standard that is used so widely and consistently around the world.

This is truly remarkable. The 114 countries using IFRS have among them hugely different economic and legal systems. The differences between Germany and France are bigger than the differences between the United Kingdom and the United States. Yet they both use IFRS. A rules-based environment is often seen as an insurmountable barrier to principle based accounting. I can assure you that the vast majority of IFRS-jurisdictions have a rules-based culture. Nevertheless these countries can work with IFRS perfectly well. They are living proof that it is there is no objective reason for national exceptions to international norms.
Standard-setting

The third and final topic I wanted to cover this evening is to mention a couple of major projects on the IASB’s work plan. In the last year or so we have made good progress in some key areas. We completed IFRS 9 Financial Instruments and also our new revenue recognition standard, IFRS 15 Revenue from Contracts with Customers. With the FASB we have started a Transition Resource Group to support implementation of the Standard. We are currently working to see whether any targeted or limited adjustments are needed to IFRS 15.

Where clarifications are needed, we should make them. However, we need to be very careful that this process does not end up with the Boards revisiting the fundamentals that underpin the Standard. The process should not become, in effect, another round of public consultation or an opportunity for people to reopen decisions with which they disagree. Completing IFRS 15 took more than a decade of hard work by both Boards, three formal rounds of public consultation, thousands of hours of meetings and countless outreach meetings. The perfect accounting standard does not exist. An endless process of tinkering will certainly not bring us close to perfection.

We are also working hard to introduce a new Standard for insurance accounting. This is a project that has been ongoing since 1997. It is high time that we brought it to an end. We are committed to finalising a current value standard for insurance contacts. We have been working in close co-operation with the insurance industry around the world, and especially here in Canada. We have also made good progress in March, by finding a workable solution for participating contracts, which was one of the last remaining issues. I am very optimistic that we will be able to finalise our deliberations in the coming months.

I am well aware that Canada is in the somewhat unique position of being an IFRS jurisdiction that requires the use of quarterly reporting. This means that Canadian companies are often in the position of being the first in the world to use new IFRS standards. Because of this, we listen very carefully to your views, and take very seriously your comments on these and other major projects.

Close

Ladies and gentlemen, I thank you for your time. I hope I have provided enough juicy topics during these opening remarks for the panellists to get their teeth into. We really are delighted to be with you this evening in Toronto. Your views and feedback are very important to us.