IASB Speech

Working in the public interest

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Speaker: Hans Hoogervorst, Chairman, IASB

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Introduction

Welcome to World Standard-setters! It is always great to be among so many fellow accounting standard-setters, from all four corners of the world. We have participants from 65 countries this year, which is more than half of the 116 jurisdictions that have adopted IFRS. 116 countries which are different in many ways, culturally, legally and politically. The fact that we understand each other through a single accounting language remains an astonishing achievement, for which all in this room can claim credit.

In the next day and a half, we will update you on the full range of projects that we are currently working on, such as lease accounting, insurance contracts and the *Conceptual Framework*. We will also brief you on our research programme.

Looking further into the future, we are keen to hear your views on the topics the IASB should consider as part of its future agenda, while the Trustees are also seeking your feedback on their ongoing review of the structure and effectiveness of the IFRS Foundation.

So, we have a lot to discuss. My colleague Hugh Shields will introduce these various topics to you, while other presenters during the meeting will describe our plans to you in detail.

However, before jumping into the detail, I would like to begin by discussing the broader context of our work. Michel Prada and I recently published a document called '*Working in the Public Interest*'. We have copies of the document in Reception, and it is also available from our website.

The document contains four themes, with sections covering different aspects of our work—the public interest of our work, the audience of IFRS, the characteristics of those Standards and the institutional aspects of our organisation. During these brief opening remarks I would like to touch on all four of these themes.

Working in the public interest

First, what is the public interest aspect of accounting standards?

We define our mission as ‘to develop International Financial Reporting Standards that bring **transparency**, **accountability** and **efficiency** to financial markets around the world.’ While not quite the Holy Trinity, these three are certainly desirable characteristics of financial markets.

Our Standards bring **transparency** by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.

They increase the **accountability** of financial markets by reducing the information gap between providers of capital and the people to whom they have entrusted their money. This is in essence the Stewardship principle, which is so important to our work.

And IFRS Standards contribute to economic **efficiency** by helping market participants to identify opportunities and risks across the world, thus improving capital allocation. The internet can help business thrive because it is based on one set of worldwide standards. It is the same in the world of financial reporting.

And so our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy. That is why the Financial Stability Board has designated IFRS as one of 12 key standards for creating sound financial systems.

The audience of IFRS

The second theme relates to the audience of IFRS. For commercial organisations, it is easy to identify the user of the product produced. But for accounting standard-setters it is less obvious. Our existing *Conceptual Framework* identifies the primary users of financial statements as ‘present and potential investors, lenders and other creditors’.

Some investors feel this primary audience is defined too broadly; they believe that only existing investors should constitute the primary audience of accounting. Others believe the audience of IFRS is defined too narrowly: they point to a previous version of our *Conceptual Framework*, which also included ‘customers, governments and the public’ as users of financial statements.

The current definition of ‘primary users’ is not as limited as it may seem at first sight. In the modern economy, a large percentage of ordinary people invest in the capital markets. They do so either directly or indirectly, for example through participation in pension plans or mutual funds.

Moreover, fostering trust, economic growth and long-term financial stability are of immense importance and not just to investors. They are of vital interest to the public at large. That is why I strongly believe that the public at large–even those who do not invest in capital markets—are a stakeholder in our work.

Characteristics of IFRS

The third theme that we focussed on is the characteristics of IFRS. A dictionary definition of 'characteristics' is 'a set of qualities'. So, what should be the qualities of IFRS?

The most obvious one to me is that accounting standards aim to describe economic reality as faithfully and neutrally as possible. In other words, they should portray economic reality rather than shape it. This seems obvious to us, but not everybody agrees with this view.

Some argue that accounting can never be completely neutral, and even that it should not be neutral. Some believe that our standards should have a consistently conservative bias, to prevent unwarranted dividend streams to investors.

We acknowledge that accounting often involves judgement and that it is not an exact science. However, even if we acknowledge that accounting standards cannot achieve 100 per cent objectivity, we aim to come as close as possible to this ideal. It would indeed be perverse to do the opposite and make subjectivity the goal of accounting, merely because perfect objectivity is impossible.

One such undesirable outcome would be a systematic conservative bias in accounting, which some say there should be. Such a bias will inevitably lead to hidden reserves. Companies would be basically saying to investors: we are happy to take your money, but we are not going to tell you how much profit we really make.

In practice, these hidden reserves will be used to mask a poor performance of companies in bad economic times. This was normal practice in the past and we should never want to return to it. Systemic conservatism always leads to imprudence in the end.

At the same time, I share the concerns of those who are worried about excessively generous dividends and unjustified share buy-backs. But this should not be dealt with by phoney accounting. It should be dealt with by legislation and by regulators, as is the case in most countries in the world.

Institutional aspects

Finally I want to say just a few words on the institutional aspects of the IFRS Foundation and the IASB. The IASB is a privately organised body and is as such a unique organisation in economic standard setting. For example, we are the only private-sector member of the Financial Stability Board, whose other members are mainly public regulators and government officials.

It is this unique structure that sometimes causes people to be confused about our work. Some see us as an Anglo-Saxon, self-regulatory body, which somehow privileges commercial interests.

The reality is quite different.

First of all, while it is true that our governance looks very much like that of the FASB, similar governance model can be found around the world, for example in Germany, Japan, Korea, Malaysia and the Netherlands. Not much Anglo-Saxon about these countries!

Secondly, we have no power to impose IFRS. All over the world our Standards are voluntarily adopted by public authorities. We know that if we do not listen carefully to our constituents, we run a severe risk of our Standards not getting adopted. Not much self-regulation about that!

The notion that is furthest from the truth is that we would somehow privilege commercial interests. First of all, our constitution ensures that the members of the IASB are shielded from undue influence by special interests. None of us hold positions in for-profit organisations.

Moreover, the transparency of our decision-making is far higher than that of many public sector bodies. Everything is on display, warts and all. Only last week, we had a very tight vote on the deferral of IFRS 9 for insurance companies. In many public institutions, a sensitive decision like this would have taken place behind closed doors.

Close

As national standard-setters, many of you will recognise what I have just described. Many of you will understand how difficult it can be to work in the public interest, and how difficult it can be to improve accounting in the face of special interests. That is why we so much cherish our relationship with you and that is why we need your help. We appreciate your help and we very much like working with you. We look forward to yet another very productive session of World Standard-setters.