

Investor Perspectives

Paul Pacter: Using outreach activities to get the views of investors and creditors



Setting global accounting standards in the public interest is an interactive process. The International Accounting Standards Board (IASB) needs input from business leaders, accountancy professionals, regulators, accounting educators, and – perhaps most importantly – those who use financial statements: investors and creditors.

Why are the users of financial statements of primary importance? Because usefulness of the information in financial reports is the foundation of International Financial Reporting Standards (IFRSs). Our goal is to make financial statement analysis as straightforward as possible by improving the transparency, understandability, and comparability of information available to investors. In other words, we need to make sure that IFRSs give investors the information they need to make investment decisions, in a way that helps them to make those decisions. To achieve that goal, it is important that the IASB hears the investor's voice.

When setting accounting standards, the IASB assesses the usefulness of the financial information that would be provided by companies applying IFRSs. If financial information is to be useful, it must be relevant (capable of making a difference in investment decisions) and it must be representationally faithful (it must portray realistically the economic phenomena that it purports to portray).

At the same time, the IASB recognises that reporting financial information imposes costs. It is important that those costs are justified by the benefits of reporting that information. Therefore, the IASB also assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information.

IASB's due process

The IASB follows a rigorous set of procedures – referred to as our due process – aimed at ensuring that the Board and its constituents understand both the benefits and the costs of the financial information that would be provided by a new or amended IFRS. The IASB's due process involves a series of mandatory and optional steps (such as working groups, discussion papers, public deliberations, and exposure drafts).

IASB outreach activities

Components of the IASB's formal due process are mostly one-directional: after thoughtful and comprehensive research and public deliberations, the IASB publishes documents that set out issues and ideas for public comment. And then, after similar study and deliberations, our constituents submit their comments. The IASB and other accounting standard setters have been doing this for decades, and it worked well. But as the issues get more complex, and particularly in a global environment, more is needed.

Our outreach activities are more bi-directional. Outreach augments our formal due process by giving the Board and project teams an opportunity to probe our constituents' views and reasoning, and gives them the chance to do the same of us. It also enables us to zero in on the problem areas identified in the formal due process so that we can identify possible solutions. This is particularly important for getting input from the investor community because investors don't usually send formal comment letters, so we need to get their input through other means. We have found that it is particularly useful for the non-investor Board members to hear first-hand the concerns raised by investors through the outreach process. We continue to try to improve our outreach initiatives to solicit input in a way that the Board can use. The outreach also helps investors to understand why the new accounting is an improvement and how it will differ from the information they get now.

As former chairman of the IASB Sir David Tweedie noted:

'The crisis has changed standard-setting forever, but in a good way. It is no longer acceptable to take more than a decade to develop a new standard, or to simply drop proposals on to our constituents and wait for the replies. Proactive, responsive and accountable – these are the attributes of modern-day standard setting.'

We make a special effort to involve investors, professional financial analysts and other users of financial statements in our project outreach programmes. A core element of this is our Investor Perspectives articles, written mainly by former analysts who are now members of the IASB. The articles offer investment professionals regular updates on items that are likely to be of interest.

The IASB does not intend either the formal due process or the additional outreach activities to be 'popularity votes' by which the IASB adds up the number of letters or views on various sides of an issue and moves in the most popular direction. Letter writing campaigns do not win the day. Our due process involves gathering information and reasoning that helps the IASB assess what information best serves the needs of users of financial statements in a cost-beneficial way.

Joint outreach with the FASB

Since 2002, the IASB has been working on many of its major projects jointly with the Financial Accounting Standards Board (FASB) in the US. Our intention is to produce standards that are as identical as possible. We have had good success on achieving converged standards on many, though not all, of our joint projects.

Why has the IASB been doing these convergence activities with FASB? We have two goals in mind:

- US acceptance of IFRSs for non-US companies registered with the Securities and Exchange Commission (SEC), and
- SEC recognition of IFRSs as a permitted or required financial reporting framework for some or all domestic US registrants.

We achieved the first of those goals in 2007, when the SEC dropped its requirement to present a reconciliation of net income and equity from IFRSs to US generally accepted accounting principles (GAAP) amounts for foreign registrants that follow IFRSs as issued by the IASB. We are hopeful that the SEC will announce some favourable action on the second goal by the end of 2011.

For our joint IASB-FASB projects, the two boards do some outreach jointly and other outreach separately. In most cases, the formal roundtables are

conducted jointly, with members and staff from both boards participating. Some webcasts are also jointly presented. Examples of outreach activities that are typically done by the IASB or the FASB separately include meetings with national or industry organisations, groups of companies or investor groups.

Because the IASB's constituency literally covers the globe, doing outreach jointly can be logistically difficult and cost-prohibitive. Whether outreach activities are done jointly or separately, staff periodically summarise the views expressed during those activities and present these summaries to the boards as agenda papers for joint board meetings. Moreover, the results of outreach activities are shared via weekly conference calls and other communications between the IASB and the FASB project teams. The feedback received eventually is incorporated into the staff papers that will be deliberated by the boards.

While successful completion of joint outreach activities can help achieve converged standards, that is not always the case. Though converged standards are the goal, in some cases the formal due process and more informal outreach activities have led to different project outcomes in IFRSs and US GAAP.

Paul Pacter is a Board member of the IASB. The views expressed in this article are those of the author as an individual and do not necessarily reflect the views of the International Accounting Standards Board (Board) or the IFRS Foundation (Foundation). The Board and the Foundation encourage members and staff to express their individual views. This article has not undergone the Foundation's due process. The Board takes official positions only after extensive review, in accordance with the Foundation's due process.