Michel Prada, Chairman of the Trustees, IFRS Foundation
Riyadh – 11 March 2014

Introduction

Dear Mr Chairman, Ladies and Gentlemen,

I would like to thank the Gulf Cooperation Council Accounting and Auditing Organization, the Council's Secretariat, and the Saudi Organization for Certified Public Accountants for organising this very impressive conference. This is an important region for the global economy, and also for accounting standard-setters. That is why I was delighted to accept the invitation to speak at this event. I would also like to thank Dr Abdulrahman Al-Humaid, who last year agreed to serve as a Trustee of the IFRS Foundation. Although both the IFRS Foundation and the IASB have for many years conducted outreach and consultation activities in this region, Dr Al-Humaid's participation as a Trustee has significantly enhanced the Trustees' understanding concerning the needs and preferences of the Gulf region.

In the short time I have available this morning, I will offer my thoughts on three important topics. First, I will explain why I believe global accounting standards are essential to the correct functioning and wellbeing of the broader global economy, and why policymakers must hold firm in their commitment to this objective. Second, I will update you on progress towards IFRS becoming truly global standards.

And third, I will explain how the IFRS Foundation and the IASB have and continue to evolve in order to meet this enhanced global mandate.

The importance of global standards

The title of this event recognises the importance of accounting and auditing to the economy. After all, accounting is often referred to as the language of business. The role of accounting is to provide a standardised, trusted method by which individuals and companies can exchange information about the financial situation and performance of an entity. That information is used by investors, lenders and market participants to make capital allocation and other decisions, which in turn drives growth for market-based economies. The whole system only works if investors and users of accounts can trust the numbers, which is why sound accounting principles, together with rigorous enforcement, and independent auditing are so important to accounting. The global financial crisis provided a real-world example of what can happen when the trust in numbers evaporates.

Most national accounting standards were developed at a time when the providers and consumers of financial information resided within the same country.

Where foreign capital was sought, it was often through a secondary listing, mainly in the United States. This economic landscape meant that most jurisdictions maintained their own set of national accounting standards, with some allowing optional use of US GAAP.

Fast-forward to the closing years of the 20th century and the economic landscape had altered dramatically. Investors now routinely seek investment and growth opportunities across the globe and business has become international both for providers and clients. Companies have an array of options where to raise capital, while numerous countries have well-developed international financial centres to compete with the established capital markets of London, New York and Tokyo. Companies also have sources of capital other than stock market listings, such as sovereign wealth funds and private equity.

As a consequence, preparers and users of financial information, as well as providers of capital, are just as likely to be located on different sides of the world as in the same jurisdiction. Today, an investor looking to compare and contrast the top 10 automotive companies among its peer group needs to analyse the financial statements of Chinese, American, German, French, Korean and Japanese companies. The same is true in most other sectors – petrochemicals, retail, the technology sector and so on.

This changed economic landscape provides regulators with an equally difficult challenge, particularly in a world where multinational corporations transcend national borders and regulatory regimes. The financial autopsy of Lehman Brothers showed that many significant financial transactions were being located in the jurisdiction with the most accommodating regulatory and accounting regime for that particular transaction– so-called regulatory arbitrage.

Meanwhile, in the depths of the crisis policymakers on both sides of the Atlantic were keen to ensure that banks in their jurisdiction were not at an accounting disadvantage to their international peers. As a matter of fact, under difficult circumstances it is always a temptation to find solutions that are apparently easy to implement but that may invite a race to the bottom.

I strongly believe that these examples provide a compelling case for a single set of high quality global accounting standards.

The road towards economic globalisation is still bumpy, but the trend is here to stay, and the regulatory and accounting regimes have to adapt to the 21st century economic landscape. In such a globally interconnected world it makes no sense for each individual jurisdiction to maintain its own set of accounting standards, at least for those entities that have exposure directly or indirectly to international markets. Doing so simply adds costs and complexity to everyone – to market participants, to the accounting profession and to those with responsibility for overseeing the efficient functioning of capital markets. In a world with 193 members of the United Nations and a global flow of information on the Internet, it does not make sense to have accounting standards, textbooks, computer software, auditing procedures, and so on developed country by country.

Furthermore, the global regulatory system urgently requires a standardised method of accounting on which other regulatory innovations depend. That is why the G20, the FSB, the IMF, the World Bank and almost every other international organisation with responsibility for the global financial system have repeatedly supported the work of the IASB and its mission of a single set of high quality, global accounting standards.

Progress towards IFRS as global standards

The good news is that we have made remarkable progress towards this goal. Back in 2000, I Chaired the IOSCO Technical Committee when it decided to endorse the use of international accounting standards for cross-border listings. That decision, together with a process of restructuring of the old IASC, contributed to the establishment of the IFRS Foundation and the new IASB with its revised mission to develop a single set of high quality, global accounting standards.

Today, more than 100 countries require the use of IFRS while many more have plans in place to adopt IFRS in the coming years. We know this to be true because Paul Pacter, a former Member of the IASB, has spent the last year or so charting the progress of countries in their plans to adopt IFRS. Paul will provide you with an overview of this remarkable project and its findings later in the programme.

Of course, it would be wrong to claim that this project is now complete, or that IFRS is used in full by every jurisdiction around the world. Transitioning from national to global accounting standards is a significant undertaking. We should not be surprised that progress can take longer than expected.

And while most parts of the world have now completed their transition to IFRS, including more than two-thirds of the G20 members, there remain some important jurisdictions that have yet to complete their own transitional plans.

Japan already permits certain Japanese companies to voluntary use IFRS. More than 30 Japanese companies have already adopted IFRS or announced plans to do so, while the Japanese Financial Services Authority has recently expanded the number of companies eligible to adopt IFRS from 621 to more than four thousand companies. China has already introduced accounting standards that are very similar to IFRS, while India is expected to follow a similar path in 2015. Of course, banks and insurance companies here in Saudi Arabia have for some time been required to report using IFRS as issued by the IASB, while the Kingdom's IFRS convergence plan for other entities is well underway.

In the United States, progress has been slower than many of us would have wished. However, it is not entirely surprising that the world's largest national economy has taken its time in deciding how to proceed with IFRS. The SEC already permits non-US companies trading in US markets to report using IFRS as issued by the IASB.

Almost 500 companies do so, and those companies have a combined market capitalisation exceeding five trillion dollars. At the same time, US investors hold over six trillion dollars of foreign debt and equity securities. A majority of those securities originate in IFRS jurisdictions.

These figures show that the IFRS footprint in the US is already very large, and will only continue to grow. Furthermore, the factors that led to the US considering adoption of IFRS have not gone away. That is why I believe that the US will ultimately come on board with

IFRS – although it will most likely take longer than we had hoped. The Trustees and the IASB will continue to engage constructively with our friends in the United States and continue to support them in their deliberations regarding their future commitment to global standards.

It is therefore important, in such an environment, that G20 leaders, Ministers of Finance and the Financial Stability Board maintain their support for the medium term objective of a single set of high quality accounting standards as part of a strategy to foster economic growth in a globalised world.

The evolution of the IASB as a global standard-setter

The third and final topic of my talk is how the IFRS Foundation and the IASB have evolved, and continue to evolve as part of our expanded remit as a global standard-setter.

IFRS has long been a collaborative venture among the global accounting community. However, as the use of IFRS has continued to expand, the Trustees have overseen the introduction of various innovations to ensure that the Standards reflect the diverse needs of the IFRS community.

For example, in 2011 the Trustees introduced an Emerging Economies consultative Group, with the aim of enhancing the participation of emerging economies in the development of IFRS. The Group holds two meetings a year and is chaired by Wayne Upton, the IASB's Director of International Activities. Also of relevance to this region is the Working Group on Sharia-compliant instruments and transactions, chaired by Ian Mackintosh, Vice-Chairman of the IASB. Saudi Arabia is represented on both the EEG and the Sharia-compliant Working Group, while the GCC Accounting and Auditing Committee also participates in the Working Group.

Appropriate consideration of topics such as Sharia transactions is important if IFRS is to be capable of being applied on a globally consistent basis.

The 2012 Trustees' Strategy Review also recommended the introduction of various other innovations that further establish the global credentials of the IASB. Perhaps the most important of those innovations is the introduction of the Accounting Standards Advisory Forum, or ASAF. The ASAF has been developed to facilitate a move from a series of bilateral arrangements between the IASB and national standard-setters such as the FASB, to a more inclusive, multilateral approach of greater cooperation in standard-setting. The ASAF meets four times a year, and its membership includes representatives of national and regional standard-setting bodies from around the world. The ASAF held its fourth meeting in London just last week, and the meetings continue to provide high quality technical input to the IASB's deliberations.

A further recommendation of the Strategy Review was the need to deepen our co-operation with other international and regional organisations. This will enable us to monitor and encourage greater consistency in the adoption, implementation and enforcement of our Standards.

The IASB, today part of the global financial architecture and a member of the Financial Stability Board, must ensure that its Standards are capable of being applied and enforced on a globally consistent basis. Last year, we concluded an agreement with IOSCO that will serve as the basis for much closer cooperation between our respective organisations. Securities regulators have indeed a major role to play together with standard-setters. Securities Regulators are best placed to monitor the use and promote the consistent application of those Standards. Only last week, we concluded a similar agreement with the International Valuation Standards Council – to work together to improve standards for the application of fair value measurement.

As Trustees, we have also sought to further strengthen the institutional structure of the organisation. Also last year, we completed a review of the IFRS Interpretations Committee and a comprehensive update to the due process followed by the IASB. In addition, we are investing in the work of our Education Initiative to help educators train the next generation of accountants. And our education work has expanded to include webcasts and materials aimed at investors, because it is so important that they understand the principles that underlie the financial information they receive.

Each of these activities signposts a more inclusive and holistic approach to accounting standard-setting as we enter a second chapter in the history of the IFRS Foundation.

Conclusion

I will now draw to a conclusion. As Chairman of the Trustees, I am greatly encouraged by the remarkable progress that has been made in little more than a decade to establish IFRS as the global standards. Paul's presentation will provide compelling evidence that IFRS has already become the de facto global language for financial reporting.

Finally, as Trustees we will ensure that the IASB has the necessary resources and processes to fulfil its role as the global accounting standard-setter. We will also do our best efforts to ensure that the international accounting standard-setting process is continuously dealt with in a way that provides legitimacy, transparency, and accountability. Hence the importance of due process monitoring by the Trustees, and the importance of the Monitoring Board that supervises our organisation. A Monitoring Board that has been recently enlarged to two new members, Brazil and Korea, with a plan for further enlargement.

I greatly appreciate the opportunity to provide you with an update on our work. I strongly believe that the case for global standards is now beyond doubt.