

Roles and responsibilities in accounting standard-setting

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Speaker: Michel Prada, Chairman of the Trustees, IFRS Foundation

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Introduction

Ladies and gentlemen, friends and colleagues, it is a pleasure to be with you this afternoon at this gathering of the International Forum of Accounting Standard-Setters, or IFASS. My name is Michel Prada, and it is my honour to serve as Chairman of the Trustees of the IFRS Foundation. The Trustees are responsible for the strategy, governance and oversight of the International Accounting Standards Board (IASB) as well as overseeing the efficient functioning of the IFRS Foundation.

I have some brief opening remarks to make this morning, and then I very much look forward to a lively exchange of views with you on the topics that I have addressed, as well as anything else that you wish to discuss. The IFRS Foundation is a very open and transparent organisation, and we welcome all feedback.

IFRS has long been a collaborative effort among the world's standard-setting community and the people in this room, as well as many other standard-setters from around the world, should be rightly proud of what we have all achieved together. Our model can only work if IFRS is capable of being applied on a globally consistent basis, across a multitude of different economic landscapes. And that means working in close co-operation with standard-setters around the world. For our part, this means that we are always ensuring that you are an integral part of our activities and that we are always seeking your advice and input at all levels. And that is the purpose of this morning's discussion: to hear your views on our performance, our current activities and our future direction.

So, to start this morning's proceedings I will introduce three main topics for discussion.

First, I will briefly introduce our main strategic challenges, including the status of global progress towards IFRS.

Secondly, I shall comment on the current consultation on the structure and effectiveness of the IFRS Foundation. This review provides a platform for you to tell us what we do well and where there is room for improvement.

Last but not least, I would like to discuss, and exchange views with you on, the role and responsibilities of accounting standard-setters in an IFRS world. The Trustees are keen to ensure that we establish a highly productive relationship with regional and national standard-setters around the world. And so, your input on this point is most welcome.

Strategic challenges

So first, strategic challenges. As many of you may know, I have been involved in the IFRS project for many years. Back in 2000, I was Chairman of the IOSCO Technical Committee when it recommended the use of IFRS for the purpose of cross-border listings. That decision led to the restructuring of the old part-time International Accounting Standards Committee into what has now become the IFRS Foundation and the IASB.

Since that point, we have seen quite remarkable progress. IOSCO's original goal has been achieved, with pretty much every major market in the world permitting the use of IFRS for cross-border listings. At the same time, we have also made excellent progress towards the longer-term objective of establishing IFRS as the single set of high quality, global accounting standards.

As of today, our research shows that out of 140 countries, IFRS is required for use by 116 countries and permitted for use by many of the remaining countries. Moreover, according to various studies, the experience of those jurisdictions adopting IFRS has been positive. The latest European Commission review of the IAS regulation is a good example of that: earlier this year, the European Commission published the findings of a comprehensive review of Europe's experience of IFRS. More than 90 per cent of respondents to the consultation had a positive attitude towards IFRS. This is remarkable backing. Moreover, the European Commission concluded that IFRS had raised the quality and consistency of financial reporting, and brought benefits to companies and investors.

This is a very important report, because it makes clear that IFRS has been a good thing for Europe, for European companies and for European investors. These definitive conclusions provide much-needed clarity about the EU's experience of IFRS. The EU's assessment will reassure other IFRS jurisdictions that they made the right decision, and provides encouragement to the other remaining jurisdictions to continue with their own plans to make the transition to IFRS. I may add that we have seen similar studies in Canada and Korea.

A large part of the credit for this progress goes to the people in this room, who have played leading roles in supporting the transition to IFRS within your own jurisdictions. We very much appreciate your support.

Clearly, the IFRS map of the world is not yet complete, and we have more work to do to further enhance consistency in the application of IFRS around the world.

Let me offer a couple of observations on these points.

First of all, use of IFRS around the world has already reached critical mass, and the risk of rollback is pretty low. As a consequence, we are now able to allocate more of our time to supporting the needs of existing IFRS jurisdictions, as well as supporting those jurisdictions who have already made substantial progress towards the use of IFRS for domestic purposes, such as Japan, India and China. Even where convergence is chosen as a path towards IFRS adoption, our staff are happy to work with the relevant jurisdiction to ensure that appropriate licensing, copyright and trademark protection arrangements are in place.

That is not to say that we should ignore other jurisdictions, such as the United States. I noted with interest recent comments by the SEC's Chief Accountant, Jim Schnurr, on IFRS in the US, and the SEC's continued commitment to the long-term objective of a single set of high quality, globally accepted accounting standards. We are very receptive to Jim's call for the Trustees of the US Financial Accounting Foundation and the IFRS Foundation, as well as the IASB and the FASB, to continue their co-operation and I look forward to discussing his ideas with him in due course.

The second thing to note is that, other than protecting our trademarks and intellectual property, we really have no authority to tell any jurisdiction what to do. Our only real responsibility is as authors of a 3,000-page book, and not a very exciting book at that. That said, there is much we can do to ensure that jurisdictions believe it is in their best interests to adopt IFRS, in full and without modification. The best way to do this is to create an international institution that absorbs input from around the world, and that allows the best of those ideas to go on to become the global standard.

Review of the structure and effectiveness of the Foundation

That institution needs to foster trust and public confidence in its work. It needs to be inclusive in its activities and transparent in its decision-making and it also needs to be accountable. And that, in essence, is what the Trustees have set out to do. In the 15 years since the organisation was created, I believe that we have built such an institution. During that time, the Trustees have undertaken two Constitution Reviews, undertaken two Strategy Reviews and participated in a Monitoring Board Governance Review. On average, that is one review every three years—far more than most other comparable international organisations. Each of those reviews has delivered incremental enhancements, and as a result I believe we are in pretty good shape.

That said, no institution can rest on its laurels, and there is always room for improvement. So, right now, the Trustees are undertaking a review of the structure and effectiveness of the IFRS Foundation. That review seeks feedback on three primary questions.

1. First, how do we ensure that the relevance of IFRS is maintained?

We continue to see ongoing shifts in the tectonic plates of financial markets. As a result, there has never been a greater need for high quality, globally consistent standards of corporate reporting. Users of financial reports are becoming more and more interested in factors outside of the pure IFRS numbers, such as integrated reporting, sustainability reporting and corporate and social responsibility. To what extent should the IASB get involved in these developments? Some argue that the IASB needs to take the lead in this area, while others feel that we have enough on our plate right now and we should prioritise improvements to financial reporting.

And what about technological developments? The promise of electronic reporting has been just around the corner for some time and requires a reliable taxonomy. Should we be doing more, or indeed less in this area? What about Big Data? What effect will that have on how users consume financial information, and the IFRS Standards on which that information is based?

2. Second, what more can we do to encourage consistency in the application of IFRS?

I have already noted that our own authority is limited in this area. However, we already work hard to ensure that our Standards are capable of being applied on a globally consistent basis, and we have increased our co-operation with market supervisors and others that do have the authority to ensure consistent use, such as IOSCO at an international level and ESMA here in Europe. Is there more that we could or should be doing, considering the limitations that I have outlined?

3. Third, what more can we do to further strengthen the governance, accountability and financing of the IFRS Foundation?

I have already described the type of characteristics that the IFRS Foundation needs to convey, if it is to maintain the confidence and trust of its various stakeholders around the world. It is important to state that there is no perfect governance model for us, because there is no global governance for capital markets. Instead, our three-tier model of the IASB, the Trustees and the Monitoring Board attempts to synthesise an appropriate balance between independence and accountability. I believe it is, to paraphrase Churchill's observation on democracy, the worst possible model apart from all the others that have been tried. May I add that we have been encouraged by the recent report by the EU Commission to the EU Parliament and to the EU Council on our activity in 2014? This report comments in a positive way on our compliance with fundamental principles and on our major achievements.

That said, there remain some obvious weaknesses that we have yet to resolve, such as how to ensure sustainable, long-term funding arrangements for the IFRS Foundation. There is also more we can do to enhance confidence in the public accountability and the effectiveness of the governance arrangements.

The review deliberately asks open questions on these topics, while also seeking any other feedback that you may have. The Trustees are genuinely receptive to your ideas, so please don't disappoint us! Comments need to be received by the end of November 2015.

Role and responsibilities of accounting standard-setters

This brings me on to the third and last topic, the role and responsibilities of national and regional accounting standard-setters in an IFRS world.

The first thing to note is that accounting standard-setters come in all shapes and sizes. Some are regional, others national. Some are tasked with maintaining their own national GAAP for all or only some companies, usually non-listed ones, while others have adopted wholesale international standards. Some are large, some small. Some have structures to maintain their independence, while others form part of government ministries. In other words, there is no one-size-fits-all model.

The challenge for the Trustees is to ensure that we have the appropriate structures, advisory bodies and governance arrangements to ensure that all standard-setters, regardless of their position, have an opportunity to contribute to our work and to feel part of the process.

Over the last few years we have worked hard to try to ensure that happens. This week, we are hosting the World Standard-Setters meeting with representatives from around 65 countries. Two years ago, we created the Accounting Standards Advisory Forum as a body to better integrate representatives from the international standard-setting community into the IASB's activities. This year, we appointed Michelle Sansom as our first-ever Technical Principal for Standard-setter Relations. Standard-setters are also active participants in our various advisory bodies and working groups.

So, the question to you is, is this sufficient? If not, what more can we do to benefit in a practical way from your expertise and jurisdictional knowledge? For bodies such as IFASS, should the IASB get more involved or would you prefer that we stood back?

There is also probably more that we can do to enhance co-operation on the IASB's Research Programme. Again, I am interested in your views about how to deepen your involvement on these projects.

And of course, this is a two-way relationship. We also need to be clear in what expectations we should have of you. Outside of the technical arena, how can we best leverage your own resources and networks, particularly in the area of policy-level outreach and stakeholder engagement? To what extent should we as Trustees get involved in your own local activities?

Close

So, we have much to discuss and debate. The structure and effectiveness review provides you with the opportunity to influence our future direction, much as the IASB's agenda consultation gives you the opportunity to influence the technical work.

I welcome all feedback and look forward to a lively discussion.

Thank you