IFRS

IFRS Foundation Speech

Introductory remarks: The success criteria of global standards

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Introduction

Ladies and Gentlemen, I am delighted to be here today at this distinguished forum organised by Eurofi. I am grateful to Jacques de Larosière and Minister Gramegna for their kind invitation.

I have had the pleasure of knowing Jacques for many years, and aside from our old and friendly relationship, I am an admirer of his career, of his role as a central banker and of his achievements as an efficient architect of the financial integration of Europe. Under his indefatigable chairmanship, Eurofi has become a highly respected and efficient platform for exchanges between industry and public authorities in the area of financial supervision and regulation.

Of course, while Eurofi is a European organisation, such discussions have to be considered in the context of a global marketplace. Capital markets do not begin and end at Europe's borders. And as a consequence, financial supervision and regulation in Europe must be fully compatible with international norms.

IFRS as global standards

That is why I am proud to discuss with you today Europe's role in establishing International Financial Reporting Standards, or IFRS, as the global standard for high quality financial reporting.

As we will no doubt discuss during the panel discussion, IFRS is not perfect. Nor has every country in the world completed its transition to IFRS. Yet I know of no other emerging standard for global finance that has achieved so much, in such a short period of time: only 15 years. The history of adoption started with the endorsement by the International Organization of Securities Commissions (IOSCO) of the core Standards of the International Accounting Standards Committee (IASC, the International Accounting Standards Board's predecessor) for cross-border listings, in May 2000, and the commitment to IFRS by the EU, in 2002.

The success criteria of global standards

Any global standard, for any discipline—whether it be for global finance, or for the production of paperclips—has three success criteria to meet. First, its purpose, or raison d'être, must be clear and well supported. Second, it must be used widely and in a consistent manner around the world. And third, its use must deliver clear and tangible benefits to all.

I strongly believe that IFRS meets all three of these criteria.

1. **A clear and supported purpose**

Earlier this year, the IFRS Foundation launched its Mission Statement, which distils the purpose of IFRS, into a few paragraphs.

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.'

The Mission Statement goes on to explain how 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.

IFRS also strengthens **accountability** by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Our Standards provide the information that is needed to hold management to account. This is also of vital importance to regulators, who play a key role in strengthening accountability in capital markets.

Finally, IFRS contributes to **economic efficiency** by helping investors to identify opportunities and risks across the world, resulting in more efficient capital allocation. For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs.

This is the purpose of IFRS, and this is the public interest that we serve. I hope that we can all agree on the importance of high quality financial reporting to the global economy. For those financial reports to provide an impartial and reliable measure of companies' financial performance, we should recognise that accounting standards should not be considered as operational tools to manage companies, and that they should not be 'instrumentalised' to influence decision-making, whether at the macro or micro level. While it is always risky to make comparisons, one could say that accounting standards are to financial management what navigation instruments are to sailors racing around the globe. By delivering objective information, they serve both short-term and long-term purposes, and they need to be combined with other tools of management, including prudential requirements.

2. Global standards must be widely used and applied consistently

It is little more than 10 years since Europe led the first wave of jurisdictions adopting IFRS. Today, I am happy to report that of 140 countries that we have researched, 116 now require the use of IFRS by all or most publicly listed companies. In other words, more than 80 per cent of all countries researched have now completed their transitions to IFRS. Furthermore, our research also showed that local adaptations are rare, and most countries have adopted IFRS in full and without modification. Please do not take my word for it. This little *Pocket Guide* provides an authoritative, verified list of the IFRS status across the countries we have researched.

Most of the remaining countries that have yet to require IFRS already permit its use on a voluntary basis. In Japan, for example, over 90 Japanese companies are using IFRS or have officially announced plans to adopt it. This represents around 20 per cent of the total market capitalisation. IFRS has progressed much faster in Japan over the past two years than anyone had expected.

The Indian government has also begun its own convergence programme with IFRS. From 2016, listed Indian companies will be required to report using the new Indian Accounting

Standards (Ind-AS), which largely follow IFRS. We are hopeful that Indian standards will end up being fully aligned with IFRS.

In China, Chinese accounting standards are now closely aligned with IFRS. 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.

Of course, we all know that there has been less progress in the United States than we had hoped. But that does not mean we should completely turn our back on the largest single capital market in the world. I have been personally involved with IFRS Standards since their inception and I cannot forget that the US Securities and Exchange Commission (SEC) has been a long-time supporter of our work. Today it oversees the IFRS-compliant financial statements of almost 500 Foreign Private Issuers, which are foreign companies listed in the US, making it one of the largest IFRS overseers in the world. It is important that we continue to co-operate with the SEC and the US standard-setter, the Financial Accounting Standards Board (FASB). While the convergence process has delivered a lot since the Norwalk Agreement in 2002, companies in Europe and elsewhere are best served by keeping to a minimum the differences between IFRS and US GAAP, and we should continue working together to prevent further differences from emerging.

So, the IFRS map of the world is not yet complete, but we are continuing to make good progress.

3. Global standards must deliver benefits

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 also provide comfort to 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. These findings are broadly consistent with similar studies that were conducted in Australia, Canada and Korea.

Summary

In summary, evidence shows that all three criteria for global accounting standards are being met. Europe's international leadership in the field of financial reporting has reaped benefits for Europe, but also for the rest of the world. I hear here and there in Europe some sceptical comments or criticisms on IFRS. Well, I am ready to challenge them and, as a convinced European, I think Europe should, on the contrary, be proud of having shown the way and should continue to play its leading role.

I look forward to an interesting and thought-provoking panel discussion.