

## **The search for consistency in financial reporting**

*Hans Hoogervorst, E&Y / Cass Business School / 17-01-2013*

Good afternoon and thank you for inviting me here today. As you may know, we have been doing quite a bit of work to develop a research capability at the IASB. An important thread of this work is to encourage independent research that complements our own activities. So I am really encouraged by the type of work that Professor Pope and his team have undertaken.

This is impressive research, carried out in a thorough and systematic manner. The main conclusion of the report is that there is considerable variation in compliance with some impairment disclosure requirements across countries in Europe, suggesting uneven application of IFRS. Although consistent application of the standards is not the primary responsibility of the IASB, we of course take great interest in these findings.

In many ways, Europe's decision to adopt IFRS in 2005 was a leap into the unknown.

No one had tried to apply the same, word-for-word set of accounting standards across such a diverse range of economies and cultures. The rest of the world looked on with interest.

One year after adoption, a study sponsored by the European Commission<sup>1</sup> found that adoption of IFRS had been challenging but ultimately successful. The study concluded that ‘there was widespread agreement that IFRS has made financial statements easier to compare across countries, across competitors within the same industry sector and across industry sectors’.

However, to get the most out of comparability the standards also need to be applied, audited and enforced on a consistent basis. That is some challenge across a union of 27 highly diverse member states with different cultures of enforcement. Especially when you consider that the economy of the largest state is more than 400 times that of the smallest.

---

<sup>1</sup> *EU Implementation of IFRS and the Fair Value Directive*, a report for the European Commission, [www.icaew.com](http://www.icaew.com)

I am not surprised that the research presented today has identified variations in the extent to which IFRSs are applied and enforced across the European Union, or that higher quality reporting is more likely in member states with a stronger regulatory environment.

Even a strong regulatory environment is not a guarantee for consistent application. The recent SEC staff report on IFRS<sup>2</sup> noted that during 2010, the SEC conducted reviews of around 4,500 existing issuers, resulting in restatements by around 15% of those issuers. This goes to show that in an economy as sophisticated as the United States, using a deeply entrenched national GAAP, you still see challenges with consistent application of the standards.

Critics of IFRS like to state that as long as there is uneven application and enforcement around the world, there is no point in adopting IFRS. This argument is, of course, nonsense. The truth is that even an unevenly applied global standard provides much more global comparability than an equally unevenly applied multitude of diverging national standards.

---

<sup>2</sup> SEC Work Plan for the Consideration of Incorporating IFRS into the Financial Reporting Regime for US Issuers, p31, July 2012, [www.sec.gov](http://www.sec.gov)

Without a global standard, there is absolutely no chance you will ever arrive at global comparability. IFRS vastly improves the opportunities to improve application around the world.

A uniform accounting language makes it much easier to detect inconsistency of application and to do something about it. This very report could not have been written in the absence of a single accounting language in Europe. Thanks to IFRS, this report is able to clearly identify indications of application problems in specific jurisdictions. These results could, and I am sure will be used by ESMA to encourage further improvements in the consistent application of IFRS.

It is primarily the task of regulators and auditors to take the lead in tackling challenges with consistent application of our standards. But we also recognise that the IASB has an important role to play in this work. I will spend a few minutes updating you on five areas that we are taking the lead on.

As an accounting standard-setter, our most obvious contribution is to develop principle-based standards that are capable of being applied, audited and enforced on an internationally consistent basis.

Over the last few years we have improved the quality control of our work during the development of new standards.

We have deepened our cooperation with national and regional standard-setting bodies such as the AOSSG and EFRAG and we have announced a new platform to coordinate this interaction with the standard-setting community, known as the Accounting Standards Advisory Forum, or ASAF.

The ASAF will be up and running in the next few months. In the same way as car manufacturers test their development models in different terrains, the ASAF will play an important part in helping us to road-test new standards, thus helping us to understand how the standards function in a community as diverse as the European Union.

Second, as a result of enhancement to our due process, we now complete a post implementation review of major standards and interpretations two years after they have come into effect.

This review provides an important safety net, to identify and rectify unforeseen difficulties in areas such as consistency, that only come to light once the standard is used in practice.

We are close to completing the first of these reviews looking at our standard on segment reporting, with business combinations being the next standard subject to review.

Third, we recently completed a two-year review of the IFRS Interpretations Committee. As a result of this review, the Committee has a much wider array of tools at its disposal to address diversity in practice and will be more responsive to requests for help.

As well as developing interpretations the Interpretations Committee helps the Board develop narrow scope improvements to Standards.

Fourth, we are stepping up production of educational material. In December last year we published educational guidance on Fair Value Measurement and we are mid-way through developing similar educational guidance for Joint Arrangements.

Finally, we have significantly increased our cooperation with securities regulators, at an international level under the auspices of IOSCO, and at a regional level with ESMA.

The fact that both Michel Prada, the Chairman of our Trustees and myself have been securities regulators in the past is indicative of the natural affinity between our organisations.

Dialogue between our respective organisations is truly excellent and we are discussing ways to expand this cooperation, possibly through some form of MoU or other formal agreement.

So in summary, our contribution to tackling the challenge of consistency is better wording, more support, being more responsive to requests for help and working with others to deliver stronger enforcement.

At the same time, we should not forget how far we have come. Less than 10 years ago, the European Union had 25 entirely different ways to account for the same transaction. Today, we have one. That is some achievement, of which Europe should be proud.

As I said beforehand, addressing the challenge of consistency requires coordinated action by standard-setters, auditors, regulators and others. The large accounting firms have a particular important role to play.

They are the only organisations that have the global reach, with offices in both the largest and the smallest countries of the European Union, and for that matter, the world.

As this research is sponsored by Ernst and Young, I am very interested to hear your own plans to help tackle the ever-present challenge of consistency in financial reporting.

Ladies and gentlemen, thank you for your time.