

The future of IFRSs and the path for the IASB

Hans Hoogervorst, Chair of the IASB

Introduction

It is good to be back in Brazil. I first came here almost thirty years ago as a student, having studied Latin American Studies. I had written my Master's thesis on the Kubitschek Era and I was eager to finally see the country I had read so much about.

I was drawn-in by this country's breath-taking natural beauty. I loved the Latin savoir-vivre of its friendly people and I was enchanted by Brazilian culture, especially its rich musical heritage.

Economically, however, Brazil was not doing very well at the time. At the time Brazilian economic thought, as almost everywhere in Latin America, was firmly in the grip of the '*dependentista*' theory. The prevalent conviction at that time was that most of Latin America's economic and social ills were due to its dependency on the world economy. Latin America should simply disengage itself from the industrialised world and go it alone. Those were the days of inflation in Brazil running at 10% a month or more.

Fortunately, Brazil itself came to the conclusion that this economic strategy was a dead-end street. In the mid-nineties, President Fernando Henrique Cardoso and his government got the Brazilian economy back on its feet. Together with his very able Minister of Finance, Pedro Malan, he brought inflation and the Brazilian debt problem under control.

Today, Pedro Malan is a Trustee of the IFRS Foundation. We are very proud to have him as a friend and an advisor.

Ever since then, Brazil has been on the path to true prosperity. Brazil has become a star performer among the emerging markets and plays a leading role in the G20. Gone are the days that Brazil seemed destined to always remain "the country of the future". For Brazil, the future is now. So, let us turn our attention to now.

Brazil's decision to embrace globalisation provides a fascinating backdrop to the subject of this conference. For the last ten years the IASB has been working towards the goal of a single set of high quality global accounting standards. My speech today will touch on three specific points.

First, that the prospects for achieving this goal are good. Second, that Brazil and Latin American countries in general have gone about adopting IFRSs in the right way. Third, that the IASB's future agenda is being determined right now, so speak up. Your voice will be heard.

The prospects for global accounting standards

Let me begin with the prospects for global accounting standards.

History is littered with attempts to develop global standards of one sort or another. So why should financial reporting succeed where other initiatives have failed?

Quite simply, global accounting standards are an inevitable consequence of global financial markets. They are needed to ensure that investors can be adequately protected in a global economy. National or regional accounting standards cannot do this. Only IFRSs can.

The ongoing global financial crisis has increased the urgency of this work. It is difficult for policymakers to deliver a globally consistent approach to financial reform without having a globally consistent way to describe financial performance. That is what IFRS does. And that is why the G20 leaders have repeatedly called for a rapid move towards global accounting standards. The transparency provided by high quality financial reporting standards provides the bedrock on which to build a better, more efficient and more resilient financial system.

So, how are we doing? Well, in just 10 years IFRSs have become the undisputed language of international financial reporting. Well over 100 countries now require or permit the use of IFRSs, including the majority of the G20.

What began in 2002 with the European Union choosing to adopt IFRSs has spread throughout the rest of Europe, across Latin America and Canada, and into much of Africa, Asia-Oceania and the Middle-East.

It is easier to name the few countries that don't use IFRSs than the many that do. Of course, within this list there are some very important jurisdictions, such as the United States, Japan, India and China.

The US will shortly consider if and how to incorporate IFRSs into its own financial reporting regime.

I believe the prospects are good for the US Securities and Exchange Commission (SEC) to make a positive decision on IFRSs.

Quite simply, it is in the US's domestic interests to be part of the IFRS community, and it is in the international community's interests to have the US on board. IFRSs will benefit greatly from SEC standards of enforcement and the FASB's technical expertise, helping us raise the bar of financial reporting internationally.

Japan is even further along the path to IFRSs. Certain domestic Japanese companies can already use IFRSs, while Japan will consider next year whether to mandate the use of IFRSs for all Japanese companies.

That leaves China and India. Chinese accounting standards are already substantially similar to IFRSs while India is in the process of determining its own IFRS strategy.

I suspect that both China and India will be heavily influenced by the upcoming decision in the United States.

While there is further work required to complete these remaining pieces of the IFRS jigsaw, I do believe we have moved from 'if' we will get there to 'when' and 'how' it will happen.

Latin American adoption of IFRSs

This brings me on to the second topic of my address—Latin American adoption of IFRSs, typified by Brazil's experience of IFRS adoption.

In many ways, Brazil has offered a textbook example of how to adopt IFRSs. When Brazil adopted IFRSs it did so in full, with no carve-outs. It eliminated some options and required additional disclosure requirements, but it resisted the temptation to tweak the standards to meet local desires.

If Brazil had made such adjustments, Brazilian companies would have had the pain of transition to new standards without the gain of full international acceptance of those standards.

Instead, by adopting IFRSs in full Brazilian companies are able to raise capital on markets across Asia, Europe and the Americas—including the United States.

Full adoption of IFRSs means that international investors are entirely comfortable with the financial statements of Brazilian companies. The risk premium associated with unfamiliar financial reporting requirements is eliminated, thus reducing the cost of capital and attracting greater inward investment.

In addition to adopting the main set of standards, Brazil has also adopted the *IFRS for Small and Medium-sized Entities* (SMEs), with more than half a million Brazilian companies estimated to be using the *IFRS for SMEs*. That is quite a remarkable statistic.

There are several people that I should thank for their support in this work.

Among them, particular credit should go to Professor Nelson Carvalho and Roberto Teixeira da Costa. Nelson is a former head of Banking Supervision at the Central Bank of Brazil and served as Chair of the IFRS Advisory Council. Roberto is a former Chair of the Brazilian Securities and Exchange Commission and served as a Trustee of the IFRS Foundation before Pedro Malan.

In 2009 Amaro Gomes, former head of financial system regulation at the Central Bank of Brazil, became a member of the IASB. He and fellow Board member Jan Engström have spent much time strengthening ties between the IASB and Brazilian stakeholders, formalised with the 2010 Memorandum of Understanding (MoU) between the IASB, the Brazilian Federal Accounting Council and the Brazilian Accounting Pronouncements Committee.

While Brazil's experience of IFRS adoption provides an interesting case study, this experience is not unique.

Across Latin America, adoption of IFRS is widespread. Almost all of the major Latin American economies now speak the same financial language. In the last 12 months we have seen these economies working towards the establishment of the Group of Latin American accounting Standard-Setters, or GLASS.

This is a very important initiative and I am delighted to be attending the inaugural meeting of GLASS in March 2012. Countries around the world are organising themselves into regional forums to discuss financial reporting matters. Europe has the EFRAG, Asia-Oceania has the AOSSG, and now Latin America has the GLASS – the perfect name for an organisation concerned with transparency in financial reporting!

The formation of these regional groups takes nothing away from the important role of national standard-setting authorities within these regions. However, such regional groups have the potential to better coordinate views across the region on important standard-setting activities, and in some cases to speak with a strong regional voice.

We have also seen that economies in Latin America share similar challenges with emerging economies elsewhere in the world. In response to this need, we have established an IASB Emerging Economies Group chaired by Wayne Upton, the IASB's Director of International Activities and Chair of the Interpretations Committee. This group is designed to encourage cross-regional dialogue between the IASB and emerging economies. I recently attended the inaugural meeting of the group in Beijing and early indications are very encouraging.

To sum-up, I would say that Latin America has shown itself to be a strong supporter of IFRSs. Countries across the region have gone about IFRS adoption in the right way, and the IASB will be with you throughout this journey.

Our agenda and priorities

The third and final topic I would like to discuss is our future agenda and the four immediate priorities that I see for the IASB in the coming year.

First, we need to complete the remaining convergence projects with the US Financial Accounting Standards Board (FASB) to the highest possible standard, and to do so in a way that benefits from the input that we receive from the entire global financial reporting community.

These remaining convergence projects represent some of the most challenging areas of accounting standard-setting.

In the coming months we will publish revised joint proposals for leasing and revenue recognition accounting standards, with a view to completing these projects during 2012. The boards are in general agreement on how to proceed, but it is important that we re-expose the proposals to avoid unintended consequences, given the importance of this work.

The boards are also working hard to develop a common approach to financial instruments accounting. It is no secret that this has been a difficult process, but we are making progress and my colleagues will provide you with a more comprehensive update later in the programme, as well as an update on the development of a joint approach to the accounting for insurance contracts.

Second, we have begun work on the development of the IASB's post-convergence agenda. We have published a consultation document that sets out some ideas but more importantly is designed to solicit feedback. The document deliberately leaves many questions open for comment. What is in urgent need of fixing?

How should we best deploy the limited resources at our disposal? We need your input in order to prioritise our limited resources in the most appropriate manner. Now is the time to speak up.

Third, we need to work with the remaining major economies that have yet to fully commit themselves to IFRSs. I have already talked about the prospects for global accounting standards, and the IASB will do all that it can to help these remaining jurisdictions adopt our standards.

In this regard, the people in this room have an important role to play, by encouraging full and consistent application of the standards across Latin America.

Finally, we will continue to strengthen the IASB's institutional relationships in a way that respects and enhances the independence of the standard-setting process. By that, I mean to deepen our engagement with those around the world who are impacted by our work, and to ensure that they have a sense of ownership and respect for the product that we are developing for investors globally.

Conclusion

Ladies and gentlemen, thank you for your time. We have a wonderful programme of speakers, and I wish you a very successful conference.