

Notes for remarks at
Financial Executives International Conference
on
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Foundation

I really welcome this opportunity to meet with you right at the start of your conference on financial reporting issues. That is not just a proforma opening statement. It is full disclosure.

I come before you as a relative neophyte to the world of professional accounting. But I am learning.

I am learning something that I could have sensed long before I became directly involved - that obtaining a strong global consensus on a single set of accounting standards will be very difficult.

- Difficult because of technical challenges.
- Difficult because different countries have different traditions, different approaches, and different degrees of professional development.

- Not least, difficult because of broadly political concerns - who in the end will have final decision-making authority, and whether, in fact different political authorities will be willing to cede that authority to a non-political body.

I want to talk a little about how the new International Accounting Standards Committee came into being, what our approach is and will be toward the difficulties, and consider the prospects for success.

It's obvious I would not be here if I did not think that a standard set of technically sound accounting standards is an important ingredient for an efficient and effective global financial system. Good and consistent information is essential if the allocation of financial capital is to truly reflect comparative advantage, is to encourage appropriately diversified investments, and is to minimize costs of capital. Competition will be enhanced, not least by facilitating foreign access to the highly developed American market and by better assuring a "level playing field". Not so incidentally, the potential savings for many of your companies operating in different countries, and required to conform to different national

standards, can be significant. That alone justifies your financial support.

As I have gotten more immersed in these issues, another fact has impressed itself on me. Let me state my concern bluntly.

The profession of auditing and accounting is in crisis. The challenges go far beyond the question of achieving international convergence on standards. They arise in part from the nature of business today - the simple fact that so much of the value of business reflects intangibles and human capital that are not captured - at least not accurately or consistently captured - by standard accounting models. At the same time, the complexities arising from derivatives and the extraordinary convolutions of "financial engineering" (engineering the very raison d'être of which often lies in circumventing tax or accounting conventions) challenge our collective understanding. Sadly, we read almost daily here in the United States of failures in enforcing accounting standards that we proudly cite as the best, clearest, and most comprehensive in the world. If that is true in the United States, what of other countries?

All of that raises large issues beyond the effort to reach global standards. But neither are they unrelated. I hope and believe The International Accounting Standards Board - the group charged with working toward convergence on the international standards - will be capable not just of achieving a compromise of varying national views but of making an intellectual contribution to new standards. I also trust that a clearer understanding and agreement on international standards will lead to more effective and consistent enforcement within auditing firms themselves and among national authorities.

The effort upon which we are embarked is not, of course, new.

There has long been an IASC.

Some good work.

But not considered able to command the degree of respect necessary.

Unbeknownst to me, a group of regulators led by the U.S. got together.

Decided to reinforce the then existing effort.

Proposed complete restructuring.

New 19 member IASC.

Appointment.

Financing.

Oversight.

14 member professional, independent Board.

12 fulltime.

They make the decisions.

Broadly representative.

David Tweedie.

Tom Jones.

4 preparers.

Importance of consultation.

49 member Advisory Council.

29 countries.

4 of your members

Phil Livingston

David Sidwell

David Shedlarz

Keith Sherin

Interpretations committee

Ambitious Agenda

Immediately raises key issues

- Consistency in operating earnings
- How much detail
 - Differences in philosophy
- "Fair value" accounting
 - Bite my tongue
- Purchase accounting, intangibles, M & A.
- And, yes, your favorite issue of stock options

Unrealistic of you to think that can't or won't be on the agenda.

Equally unrealistic to think it can be easily solved - that there is any obvious formula that the Board is prepared to set out.

Long ways from a decision.

Plenty of opportunity for all views - your representatives have been vocal.

Enjoined not to comment on technical issues.

And I will not.

But I will not refrain from more general comment - not on the particular accounting treatment of stock options but on their general use and abuse.

Options have become very widespread.

Slogan

Aligning incentives of employees and executives with stockholders.

Immense remuneration in stock market boom of 1990's.

But more and more questions arising as to the abuses.

Can they, do they, distinguish effectively between good company and good executive performance and what is essentially a "free ride" from a stock market "boom" or "bubble".

By their nature they are one way options - not a privilege accorded stockholders.

They are capable of providing rich rewards for sub-par performances.

Given more recent developments and the spreading economic difficulties, it's also obvious that stock options cannot recognize exceptional performance in down markets.

These are, quite clearly, questions that go far beyond the particular issue of the proper accounting treatment of share-based payments.

My purpose in mentioning them is certainly not to deny stock options, properly structured, can be an important - even crucial - practice in executive pay. They certainly are well embedded in industry practice.

Many of you are concerned - none of us could have any doubt on that score - that accounting treatment not destroy the usefulness of well designed programs of stock options.

What I am suggesting is that, in defending that view, as responsible business leaders you also be alert to dealing with potential abuses and excesses.

In any event, the narrower question of stock options must not be permitted to dominate the agenda or slow progress on other items on our agenda.

I think we all want to see progress on areas that are clearly begging for clarification -

Consistency in operating earnings and proper accounting for Mergers and Acquisitions (and the intangibles resulting there from) are two cases in point.

We will need your continuing understanding and support through formal and informal channels.

Your leaders, fortunately, do not have a reputation for bashfulness. They put their points forward with great force.

I welcome that - welcome it in the context of common recognition of the value of working toward the best possible basis for achieving international convergence on strong, effective and enforceable international accounting standards.