Interview with Trustee Chairman Tommaso Padoa-Schioppa

Robert Bruce interviews Tommaso Padoa-Schioppa, appointed as Chairman of the Trustees in July 2010.

Tommaso Padoa-Schioppa, the newly appointed Chairman of the Trustees of the IFRS Foundation, has spent a lifetime in public roles in the financial world. He was a member of the European Central Bank's Executive Board from its founding in 1998 until 2005. In 1997-98 he was Chairman of CONSOB, Italy's securities regulator. From 1993 until 1997 he was Chairman of the Basel Committee on Banking Supervision. And he has been Chairman of the Trustees of the IFRS Foundation once before. He followed into the footsteps of his mighty predecessor, Paul Volcker, onetime Chairman of the US Federal Reserve, in 2005, only to step down in May 2006 when he was asked to become Minister of Economy and Finance of the incoming Italian Government.

So he not only brings to his new role a long experience in the field of regulating financial institutions, but he also brings the brief experience of having held the role before. 'I have spent all my professional life as a public official, but I am not an accountant', he says. 'When I took the Chair of the Trustees at the end of 2005 I had retired from a seven year term at the European Central Bank. When I left that Board I thought I had terminated a public service of 40 years.

His first experience of chairing the trustees, although then brief, made a lasting impression. 'For decades I had been very involved in cooperation and international regulatory standards', he says. 'When I took the Chair of the trustees I discovered an institution which was, in many respects, a much more advanced experience in international cooperation than all those I had practiced before. The Board is not composed of national officials spending most of their time in national institutions, meeting only three or four times a year like, for example, the IOSCO Technical Committee or the Basel Committee. The IASB operates as a full time board'. He draws another distinction. 'The IASB is not acting under the direction of national bodies. It is structurally committed to the international profile of its activity. So it is not a negotiating body between national systems'.

His task as Chairman of Trustees is to ensure that the trustees, drawing on all their international knowledge and experience, guide the work of the IASB and the rigorous application of International Financial Reporting Standards. But it is an oversight role. They appoint the members of the Board. They review the technical agenda and provide feedback received from stakeholders. They establish the operating procedures and due process. They ensure the financing of the organisation and approve its budget. They are the safeguards of the IASB's independence. Crucially, they review the IASB's strategy on an annual basis and assess its effectiveness. But, equally crucially, they are barred from giving instructions on the technical issues in the standard-setting process.

This gives the trustees the freedom to safeguard the underlying principles and goals of an independent standard-setter. 'It is clearly extremely important that the methodology of financial statements is consistent with the reality of a global financial system', he says. 'Investment is largely based on an assessment of the companies in whose debt instruments or shares savings are invested. In a world in which savings easily move across national frontiers, it is essential – for their allocation to be efficient – that the data concerning companies are comparable and based on the same accounting standards to allow comparisons'.

'Before the IASB there was no consistency and comparability of data', he says. 'Now, ten years later, IFRS are used by a growing number of companies in the majority of countries around the world. Even in the US – where the IFRS are not yet adopted for domestic issuers - the divergence in the standards is significantly less than it was ten years ago. An agreed method of comparison is an essential pre-condition for a well functioning global economy, a more efficient allocation of capital, and greater protection for investors'.

He suggests two reasons why this change has come about. 'There are two elements on which the success of an extremely ambitious and courageous project like IFRS should be assessed, and those are the quality of the standards and the extent to which they are adopted worldwide', he says. 'It is quite remarkable that almost all the important financial centres of the world have adopted or are in the process of choosing IFRS'.

He ascribes it to the way that the IASB was originally set up. 'It is a formula invented by the creators of the IASB', he says, 'This formula proved very effective'. But he accepts that it is not to everyone's taste. 'It is somewhat removed from the traditions of some countries, particularly of the EU, where setting accounting standards used to be the prerogative of the legislature', he says. 'The debates on issues of governance can be explained by the fact that the formula on which the organisation is based represents a big innovation on the European tradition. The innovation proved necessary because the EU had failed to develop the consensus required to create common accounting rules through the more traditional method of public legislation'.

He sees three challenges ahead. The first is *convergence*; the second is *quality*, which largely consists in identifying the lessons accounting should draw from the financial crisis; and the third is *governance*. 'The convergence challenge (and the related issue of adoption) is still ahead of us', he says, as decisions on the adoption of IFRS for domestic companies by the US remain pending. The second two issues are intertwined. 'The quality issue relates to the long running debate as to whether prudential and financial stability considerations should matter in setting the standards, or whether they should be ignored', he says. 'It is natural to question the way financial statements were drafted, in the light of the crisis.' Public authorities were heavily involved in trying to sort out the crisis. 'The crisis brought about a very significant involvement of the public sector in maintaining stability, including in areas previously somewhat neglected by public policies, such as rating agencies, over-the-counter markets and derivative products'. For him this explains why the governance of the IASB has come under such scrutiny. 'The fact that accounting standards were set by an industry organisation which was not directly under the control of public authorities is questioned today', he says. 'My answer is that accounting standards cannot become binding without validation by a public authority; indeed, their binding nature comes from acts by public authorities. Moreover, an evolution has already taken place with the creation of the Monitoring Board'.

His work as Chairman will be supportive. 'I see my task as a contribution to consolidating the success of the first decade', he says. 'And whether that requires further change I cannot predict at the moment. I need to form my views. There is a strategic review due by the Board of Trustees and that is the way to do it. I will involve myself very much in this review because I regard it as most important'.

But he does not lose sight of his central stance. ‘This is an extraordinary success story’, he says. ‘What is necessary is to continue it and consolidate it, but there are some big challenges ahead which have to be faced courageously and without any pre-conditions’.