Introduction

This is my first speech in the United States since being appointed as Chair of the International Accounting Standards Board (IASB). So I think it is appropriate to tell you a little about myself.

I have spent the majority of my professional life serving the public interest. As a minister of Health and minister of Finance I served in administrations that concentrated on trimming the bloated Dutch welfare state. My colleagues and I got a lot done and the Netherlands is now, once again, one of the strongest economies in Europe.

So in 2007, I thought it was time for me to leave politics. I went on to chair the Authority for the Financial Markets, the Dutch equivalent of the US Securities and Exchange Commission (SEC). I was happy to leave the hectic world of politics behind me and to enter into what I thought to be the relatively rational world of finance.

Little did I know!

During the financial crisis, it became clear that the banking industry had become just as dependent on the state as the clients of the Dutch welfare state!

The banks had gradually been allowed to operate on the flimsiest of capital margins. Only through implicit and explicit government and central bank support could this system be kept afloat.

I wondered why it had taken the markets so long to figure out that this emperor was not wearing any clothes. The obvious answer was lack of transparency. Prior to the crisis, the banks' financial health was measured by the Basel regulatory capital ratios. These were based on a system of risk-weighing assets, which turned out to be completely faulty. A bank could have a seemingly healthy Basel capital ratio of 12%, while it was in effect 50 times leveraged. Many investors were misled by these illusory numbers. If only people had paid more attention to the regular accounting numbers! Then they could have seen that most banks' capital was not higher than 1% or 2% of their balance sheet.

So I thought it was grossly unfair when critics started scapegoating accounting standards during the financial crisis. Fair value accounting was the most frequent target. I believed this view to be wrong. It ignored the basic and flawed economics that the accounting was attempting to describe.

For this reason I joined Harvey Goldschmid to co-chair the Financial Crisis Advisory Group (FCAG), formed to advise the IASB and the FASB on their joint response to the financial crisis. I think the FCAG was able to bring some common sense to the heated discussions about accounting.

The trauma of the financial crisis left me deeply convinced of the need for transparency and investor protection. Transparency and investor protection are indeed two sides of the same coin. Investors need active protection as mis-selling of complex products is unfortunately commonplace in financial markets. For the same reason, increased transparency is the key to investor protection.

High quality financial reporting standards are essential for improving transparency in the markets.

They provide rigor, discipline and comparability to the presentation of the performance of entities. High quality accounting standards are the bedrock of trust in our market economies. For this reason I am very much honoured and deeply motivated to have become the Chair of the IASB.

The importance of global accounting standards

Let me now turn to the importance of having one global financial reporting language.

First of all, I am convinced that you stand a better chance of developing standards that have teeth, if you do so at an international level. If everyone is committed to the same objective, then we can raise the financial reporting bar internationally without fear of disadvantaging those nations that are trying to do the right thing. That was the view of the FCAG, of IOSCO and of securities regulators around the world, and it continues to be the view of the G20 leaders.

There are also good commercial advantages to everyone speaking the same high quality financial reporting language. We will hear later how Ford Motor Company sees IFRSs as an important element of its 'One Ford' strategy.

Standardising on IFRSs has the potential to allow Ford to use the same financial reporting language for both internal management reporting and external financial reporting on a worldwide consolidated basis.

One language will eliminate duplication and translation risks across all Ford international subsidiaries. The long-term cost savings could be substantial.

Ford is not alone in identifying such benefits. Archer-Daniels-Midland, the Bank of New York Mellon, Kellogg, Chrysler and United Continental Holdings all joined Ford in signing a recent public letter[1] to the SEC calling for the adoption of IFRSs in the United States. Clearly, this is an important issue to them, as it is to other major preparers that share similar views.

For investors, the benefit of a global financial reporting standard is equally profound. The cause for international accounting standards gained momentum when many investors burned their fingers during the Asian Financial Crisis in the late nineties. Companies that had shown seemingly fantastic results suddenly turned out to be broke. Clearly, financial reporting needed to be improved around the world.

Nowadays, investors are even more dependent on the international capital markets than before.

The US's current share of global market capitalisation[2] now stands at just over 30%, compared to an average of 45% between 1996 and 2006. US financial markets have not shrunk; it's just that other parts of the world—in particular the Asian financial centres—have become global players.

These developments call for the United States to play a key role in developing global standards. The California Public Employees' Retirement System, or CalPERS, the largest public pension fund in the United States, explained in its submission[3] to the SEC why it believes the SEC should move forward with adoption of IFRSs. In closing, CalPERS stated that "the SEC has the opportunity to effectively improve accounting standards, and to regain and increase investors' trust in financial reporting." To me, that says it all.

US investors, preparers and capital market providers recognise the substantial benefits that come from everyone speaking the same financial language, while securities regulators understand that, without it, opportunities for regulatory arbitrage will remain.

That is why I believe that the case for global accounting standards, and with it the case for US adoption of IFRSs, remains compelling.

[1] http://www.sec.gov/comments/4-600/4600-39.pdf
[2] US Committee on Capital Markets Regulation, see www.capmktsreg.org/competitiveness/index.html
[3] http://www.sec.gov/comments/4-600/4600-137.pdf

The SEC consideration of IFRSs

I would now like to turn to the possible SEC decision on incorporation of IFRSs. This is an important decision for the United States, as well as for other parts of the world that have yet to formally commit to IFRSs. There are various arguments for or against incorporation of IFRSs in the US financial reporting regime. Many of these arguments are valid, others I believe less so.

Quality

Let us start with the most important one—the quality of the actual standards. I have often felt that arguing about the relative superiority of IFRSs vs. US GAAP is not very productive. Academic studies have concluded that both IFRSs and US GAAP are high quality standards[4]. A decade of joint work to improve and align IFRSs and US GAAP means that both sets of standards have improved and are moving closer together. Each is used within major capital markets. Each has its relative strengths and weaknesses.

While I am not dismissing these differences, I am not convinced by the arguments that one set of standards is clearly superior to the other.

So I could not imagine that concerns about quality would play a major role in the decision to adopt IFRSs.

Actual usage of IFRS

Next, I have heard it argued that few major economies actually use IFRSs. Some even say that Europe does not use IFRSs due to the optionality of nine paragraphs of IAS 39 *Financial Instruments*. Yet this option is used by less than 30 companies. That is less than 1% of listed companies in Europe. The other 99%, some 8,000 listed European companies, all use full IFRSs.

It is also a fact that the world has moved to IFRSs at an astonishing pace. In the Americas, almost all of Latin America and Canada are going to be fully on board. In Asia-Oceania, Australia, New Zealand, Korea, Hong Kong and Singapore are or will be full adopters. South Africa and Israel are fully on board. In Europe, countries outside the EU, such as Turkey and Russia, are also full adopters. The majority of the G20 members are full adopters of IFRSs.

Application

A more compelling criticism of IFRSs is that inconsistent application of the standards makes international comparison more difficult.

There is certainly some truth in this argument, as we have witnessed with the accounting for Greek sovereign debt. However, the same is true when you have different accounting standards. You can only work towards consistent application if you have one single language. We are very much committed to working with securities regulators and the accounting profession to enhance consistent application around the world. It will take time, but it can be done. If you do not have a single language, international consistency in financial reporting will always remain an illusion.

A major comfort to the United States should be that if you adopt IFRSs the SEC will remain in full control of enforcement. So there is absolutely no danger of importing different enforcement standards from abroad into the United States. Indeed, it is much more likely that international standards of IFRS enforcement will benefit from the SEC's rich experience and active participation.

[4] American Accounting Association Financial Accounting Standards Committee, 2008 - Karim Jamal

Preparedness and costs

Many American companies worry about the costs of adopting IFRSs. Let's not beat about the bush; these are real costs.

Therefore it would be reasonable that a relatively long transitional period is provided, particularly for smaller publicly traded companies. An option to allow early adoption of IFRSs also seems sensible for those companies that can already see substantial net benefits of IFRSs.

At the same time, the difficulties of transition should not be exaggerated. Convergence has brought IFRSs and US GAAP much closer together. There is already a lot of IFRS knowledge in the United States. The SEC has built-up a substantial IFRS competence, overseeing the financial statements of a growing number of foreign private issuers listed in the United States. Many large preparers already have IFRS expertise within their organisations through international subsidiaries.

The CFA Institute now teaches IFRS financial statement analysis to all CFA Program students studying in the United States and elsewhere. From this year, students sitting the AICPA's CPA exam will be tested on IFRSs.

These substantial investments will ensure that the United States is well prepared in the event that the SEC decides to proceed with IFRSs. And let's face it, if Brazil and Korea could adopt IFRSs in a short period of time, certainly the United States can do the job.

Sovereignty

Another argument used against US adoption of IFRSs is the perceived loss in sovereignty. The SEC Staff Paper specifically addresses this point. It makes it clear that the FASB and the SEC will continue to have ultimate responsibility for accounting standards regardless of whether the United States moves forward with IFRSs.

Obviously, participation in any international agreement, whether it is the World Trade Organisation or IFRS standards, requires negotiation and cooperation. The United States will continue to have a great deal of input into the standard-setting process. The knowledge base within the FASB is too valuable to the IASB to be excluded.

In addition to the role of the FASB, the United States has, and will continue to have, a great deal of influence within the IASB. Four out of the fifteen board members are American and they certainly play a significant role.

On that note, I want to congratulate Patricia McConnell, my fellow IASB Board member, on being inducted into the *Institutional Investor* 'All America Research Team Hall of Fame'. Pat has been rated as the number one accounting analyst in the United States for sixteen years running. Her extensive experience and contacts with the US analyst community is a real asset to the IASB.

American sovereignty will also be protected by the SEC's intention to adopt similar endorsement mechanisms to those used elsewhere in the world. Such endorsement mechanisms provide an important 'circuit-breaker' if the IASB produced a standard with fundamental problems for the United States. An endorsement process would also ensure that the FASB continues to play a prominent role. It is important that the IASB and the FASB, along with other standard-setting bodies, continue to work in close co-operation once the convergence project has ended.

Independence of the IASB

The final topic I would like to touch upon is the readiness of the IASB to become a global standard-setter. For some commentators this translates into the due process followed by the IASB and concerns that the IFRS process is too political.

When the IASB was established in 2001 its standard-setting process was largely modelled on that of the FASB. Since then both organisations have continued to enhance our respective due processes.

For the IASB, this has resulted in enhancements to the depth and transparency of its standard-setting and consultation activities, including the introduction of effect analyses and post-implementation reviews for major standards.

I have never worked in an organisation that is so transparent in its activities, and that consults so widely.

As for political pressure: I can only admit that it can be there. But this is not unique to the IASB. In the heat of the financial crisis, both the IASB and the FASB were put under intense pressure to relax our rules. It was not a pretty picture. Pressure on the boards is a fact of life. Our work affects many business interests that often find the willing ears of politicians. But I think that, as the IASB grows and diversifies, it will become much more difficult for special interests to force their issues onto the board.

On a more personal note, I did not leave politics to make accounting political. Quite the opposite; I will use all my political skills to keep accounting as apolitical as possible.

Conclusion

I began my address by touching on the importance of transparency in the context of investor protection. This is a subject that my friend and colleague Harvey Goldschmid will discuss in more detail. I believe that it is important for investor protection in the United States and internationally that the SEC remains at the forefront of determining international financial reporting policymaking. This cannot be done from afar.

It is difficult to imagine that, after a decade of investment in convergence, a negative decision could be a possible outcome, or that the United States would intentionally choose to discard international leadership, in something as fundamental as financial reporting.

It is also not clear what the alternative would be. IFRSs will continue to evolve. A US commitment to maintaining existing levels of convergence with IFRSs would require the FASB to spend most of its time eliminating new differences. Is this the best use of the FASB's considerable talents, expertise and knowledge of the international environment? If the US chooses not to maintain convergence, it would lead to divergence. That is certainly not what policymakers need as they navigate the ongoing financial crisis.

It is for these reasons that I am optimistic about the prospects of a positive decision by the SEC on IFRSs.

I believe the direction of travel for IFRSs is established, the momentum unstoppable and the endpoint is clear. Ultimately, there will be a global language and IFRS is the only candidate.

Ladies and gentlemen, thank you for your time. I wish you a very successful conference.