

## **Hans Hoogervorst: Strengthening institutional relationships**

*IFRS Foundation World Standard-Setters Conference*

*23 September 2013, London*

---

### **Introduction**

Ladies and gentlemen, fellow standard-setters, I would like to welcome you to this annual meeting of world standard-setters.

The first meeting of world standard-setters took place in 1991, predating by ten years the creation of the IASB. Back then, the ambition of the national standard setters was limited, namely to reduce the differences in their respective sets of accounting standards.

Today, that mission has evolved to be a single set of high quality, global accounting standards. That mission is supported by the G20 and it is a mission that we are fully committed to achieving.

However, a single set of standards does not mean a single accounting standard-setter. IFRS has long been a joint effort by the worldwide standard-setting community. There is no way the IASB with around 60 technical staff and 16 board members can adequately engage with stakeholders across more than 100 countries. Without your help, we would struggle to identify the practical, gritty issues companies and investors would face when applying the new standards.

Our new agenda shows clear traces of our collaboration. For example, the proposal to amend the accounting for agricultural bearer assets might not have happened without the work undertaken by members of the AOSSG, particularly Malaysia. And last week we started discussing business combinations under common control. Our starting point was the work of the Italian Standard-setter, EFRAG and the standard setters who form our emerging economies group. We have many similar stories.

So while a single set of global standards means a single arbiter of the standards, ensuring that those standards are high quality requires close cooperation between the IASB and the people in this room.

We have a similar challenge when it comes to consistent implementation and enforcement of our standards. We do not have the resources to support the implementation of our standards nor the remit to enforce their use.

Over the last ten years, much of our work with partners around the world was done in a rather informal way. In the 12 months since the last world standard-setters meeting, we have made important strides towards strengthening our institutional infrastructure. Let me walk you through some of these developments

## Jurisdictional profiles

First, one of the most frequent questions I am asked about IFRS is: who actually uses the standards? Until recently, we were at best able to make an informed guesstimate. But it always felt somewhat unsatisfactory that the IASB was not able to come up with precise information to chart our progress towards global accounting standards.

In last year's conference, we presented the preliminary findings of our first endeavours to get the full picture of IFRS-use around the world. Since then, our team, led by Paul Pacter, has made great progress. With your help, Paul has been able to complete 81 jurisdictional profiles and more are to come soon.

The results of the survey are very encouraging. For example, of the 81 jurisdictional profiles now completed, 78 have made a public commitment to a single set of global accounting standards. More than 85% of jurisdictions have adopted IFRS in their capital markets. Those adopting jurisdictions made very few modifications to IFRS, and the few that were made were mostly temporary steps in the jurisdiction's plans to adopt in full IFRS.

Paul Pacter will provide you with a more comprehensive briefing on this work later in the programme, but this really is a very important initiative that would not have been possible without your support. By the way, Paul will approach those of you who have not been able to provide us with full information yet, and I warn you he will not let go of you before he has everything he needs.

## IOSCO

A second important development is the joint agreement that we reached with IOSCO, the global organization of securities regulators. This agreement between the IASB and IOSCO describes a series of steps that will see the two organisations working more closely together to support high levels of consistency in the implementation of IFRS globally.

Consistency of application is just as important as the standards themselves. This agreement provides the IASB and IOSCO with the necessary institutional arrangements to stimulate work in this area. Securities regulators tend to be among the few friends that accounting standard setters have and we intend to make the best of this friendship.

## ASAF

Third, the introduction of the Accounting Standards Advisory Forum, or ASAF, provides an important mechanism to strengthen our cooperation with the international standard-setting community. The ASAF has now met once in person and a second time via video conference, with the third meeting ASAF meeting to take place in London later this week.

I view ASAF as a very positive development, and I note from recent speeches by some ASAF participants that they also share this view. Thanks to ASAF, giving feedback to the proposals of the IASB is no longer primarily a bilateral event, but a multilateral endeavour. ASAF members do not just discuss with the IASB, but also with each other. ASAF

members do not only have to convince the IASB, but they will also engage with each other on the merits of their arguments. The end result is that participants will understand much better the competing views, while the IASB is better able to incorporate this feedback into our deliberations.

It is important that the ASAF reflects not only the views of the organisations sitting around the table, but of the entire standard-setting community. The regional standard-setting bodies such as the AOSSG, EFRAG, GLASS and PAFA serve as representatives of the entire region. This is extremely important to ensure that the ASAF is not seen as an exclusive club.

Inclusiveness is also the reason why we continue to need the World Standard Setters, because that is the only platform where all standard setters meet. I know there is some meeting weariness among members of IFASS, especially amongst those who are also members of ASAF. We will be happy to discuss with IFASS how we can minimize overlap and travel. However, I think we have a joint responsibility of keeping WSS as a vital platform, since it is the widest and most inclusive platform that we have.

### **The role of standard-setters**

The final topic that I would like to discuss is what I call the paradox of standard-setting. Throughout the history of accounting standards, it has often been the most needed improvements to transparency that were the most controversial, and the hardest to drive through. For example, expensing stock options was obviously the right thing to do. But vested interests were so strong that the economic myth that these options basically were for free could be kept up for a very long time. If you believe that the role of accounting is to keep capitalism honest, then these are the battles worth fighting. This is the way we deliver material improvements to transparency and how we help to protect investors.

At the same time, not all controversy is the result of lobbying by vested interests. After all, most standard-setters have at some time proposed changes that were not sufficiently developed or that had unintended consequences not obvious at the time of proposal. Our due process provides an important quality control mechanism and this is something to cherish. Legitimate technical or practical concerns about our standards need to be addressed and that is what we do.

The difficulty comes in trying to distinguish between these two. It is not always obvious what is lobbying by vested interests and what is public interest feedback whose purpose is to help us deliver a high quality standard. More often than not the vested interest is packaged in public interest arguments. Sometimes even users do not want change. Analysts are sometimes so much in love with their own models that they do not want our standards to shed light on complex issues.

Helping us to make this distinction between legitimate concerns and the conservatism of the status quo is a central role of all standard-setters, including national standard setters. We need you to identify technical and practical flaws in our proposals. But we also need your help in pushing back on vested interests. This is difficult, often unpopular work, but it is essential and we cannot do it alone. If we are to deliver standards with the necessary rigour and discipline we need all the help we can get.

This is particularly important in the coming year as we seek to finalise the four major projects of insurance, financial instruments, leasing and revenue recognition. In each of these cases, we will do everything possible to minimise the possibility of unexpected consequences. High quality feedback and field testing is invaluable as we complete this work. However, we must also guard against being lobbied off course. Standard-setting is an exercise in change management, and change is rarely popular, even if it is change for the better. We need your help to get these changes done.

Ladies and gentlemen, I wish you a very successful conference and I look forward to discussing these challenges with you in greater depth over the next two days.