

IASB Speech

Ind AS: A Big Step Forward

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Venue: Mumbai, India

It is a pleasure to be with you today. I would like to thank KPMG for co-hosting this conference, and the many people in India who continue to advance the cause of IFRS and global standards.

Visiting Mumbai is a remarkable experience. The Netherlands, where I come from, imagines itself to be a densely populated country. Your city has a bigger number of inhabitants than my entire country, squeezed into a landmass fifty times smaller. This is a busy city, full of energy and industry.

In the last few months, that sense of energy and industry has been redoubled because of a flurry of energetic economic decision-making in India. This includes the area of financial reporting. The 2014 Union Budget kicked off a frenetic period of planning for the new Indian Accounting Standards, or Ind AS, that are converging with IFRS.

This is important work here in India and the world is taking notice. During my remarks this morning I will focus on India's chosen path to IFRS and global standards; the impressive achievements thus far, and the challenges that lay ahead.

Global accounting standards

Let's begin with an update on IFRS adoption and progress towards global standards.

We at the IASB like to think of IFRS as being a leading example of global standards. Indeed we are, but let's not forget there are some economic sectors that are even more advanced in the adoption of global standards than we are.

For example, standards set by the International Civil Aviation Organization are applied *in full* by more than 190 countries. Its standards ensure the safe and orderly growth of the aviation industry.

Another example is the technology sector. International standards set by the World Wide Web Consortium, or W3C, are used by every country in the world. The bad old days of computer users

needing to learn different systems and technologies have been swept away. Today, the Web is simply the Web, the same everywhere, whether you are in Mumbai, Madrid, Moscow or Massachusetts.

When it comes to international standards for financial reporting, we are making very good progress, but we still have some way to go. The rationale for global accounting standards is similar to the other examples I have quoted.

To establish high quality standards that improve the efficiency, usability and safety of the international system. For civil aviation, it's about protecting passengers. For financial reporting, it's about protecting investors.

So how are we doing? Well, during 2014 we conducted a major piece of research on the use of IFRS around the world. That research showed that 114 out of 138 countries that we reviewed now require the use of IFRS for all or most publicly listed companies. 12 more countries permit companies to voluntarily apply IFRS if they wish to do so. India is one of these countries.

Europe transitioned ten years ago from national accounting standards to IFRS. The European Commission has recently undertaken a consultation on Europe's experience of IFRS. The more than 200 responses it received have been published on their website, and the responses are very encouraging.

Most respondents argued that the introduction of IFRS has resulted in improvements to the quality and comparability of financial reporting across the European Union. These findings are consistent with other post-IFRS assessments undertaken by other adopting countries, such as Canada and Korea.

IFRS is also used extensively in the few remaining major jurisdictions that do not yet actually require its use.

In Japan the number of companies voluntarily switching to full IFRS has significantly increased in the last 12 months. In the near future, roughly 25 per cent of the Tokyo market capitalisation is expected to be on IFRS. The top three reasons given by these companies for transitioning to full IFRS are comparability with global competitors, the spread of their shareholder base and management efficiency.

In China, companies representing more than 30 per cent of the total market capitalisation of the Shanghai Stock Exchange produce IFRS-compliant financial statements, as a result of their dual listings in Hong Kong.

India is another Asian giant that allows voluntary adoption of IFRS by individual companies. Currently, 7 very big and globally hugely competitive Indian companies already use IFRS. Together, they comprise 23 per cent of the Nifty 50 market capitalisation. The use of IFRS greatly adds to their appeal to international investors. It facilitates their access to the international capital markets. So India is right there in the vanguard of IFRS adoption among the Big Three in Asia!

India and IFRS

This brings me to the most recent developments in financial reporting in India. Prime Minister Modi has shown a resolute determination for India to adopt the highest standards of international corporate governance. He sees first-rate corporate governance as a vital precondition to further increase India's appeal to foreign investors. Obviously, high quality accounting standards are in turn a vital component of first rate corporate governance.

In his first Union Budget speech, Minister of Finance Arun Jaitley stated that 'There is an urgent need to converge the current Indian accounting standards with the International Financial Reporting Standards'¹

The benefits to India of embracing IFRS are obvious.

- First, adopting IFRS is a public commitment to high standards in corporate governance and reporting. It fulfills important commitments made by India to the G20, the Financial Stability Board and other international bodies.
- Second, studies in other emerging economies show that the cost of capital will generally fall when a country adopts IFRS. Investors no longer need to charge a risk premium associated with national accounting regimes that are not recognised internationally.
- Third, IFRS provides Indian companies with a passport to access almost every capital market in the world, including those in Europe and the United States.
- Finally, IFRS-training provides Indian accountants with a skill set that is recognised and highly sought after in just about every country in the world. We have several Indian accountants working at the IASB and I can assure you they deliver first-rate work! Just imagine if all Indian accountants were to be highly skilled in IFRS. It could be the mother of all outsourcing opportunities!

It is for these reasons that the new Ind AS should be considered as a very important stepping-stone on the path to adoption of IFRS.

It is for each country to decide its own path to IFRS. For some, that has been outright adoption. India has chosen a different path and is converging with IFRS through the issuance of the new Ind AS.

The new Ind AS are a significant improvement over the existing Indian Accounting Standards, and they will be much closer to IFRS. I am also very much impressed with the pace and determination of

¹ "Budget 2014: Indian Accounting Standards now must for firms", July 2014, www.livemint.com

the Indian government and the Institute of Chartered Accountants of India to drive through these important improvements to Indian financial reporting.

At the same time, we have to acknowledge that the new Ind AS will not be the same as IFRS. The current proposals contain one major and several minor differences. Even if the final differences with full IFRS turn out to be small, their effect in terms of international recognition could be big.

Foreign investors do not have the time or the resources to study the intricacies of accounting standards. They want to see the well-known brand of IFRS: anything else makes them raise their eyebrows. So for India to draw the full benefits of IFRS, it is very important that the Indian carve-outs should not only be small; they should also have a limited lifetime. It is important that investors see them as only an intermediate step on the way to full IFRS.

Indeed, the danger would otherwise be that Indian companies would incur the full cost of transition to a new standard without receiving the full benefits and international recognition that come with IFRS adoption.

In the context of bringing Indian accounting standards closer to IFRS, it would also appear to be logical for the existing option for Indian companies to be continued. First of all, removal of the option could be perceived internationally as a move away from IFRS, even though at the same time the government wants to bring India closer to IFRS. Secondly, a withdrawal of the IFRS option would lead to a needless loss of comparability of these Indian companies with their international peers. Finally, as I indicated before, the existing IFRS option places India firmly in the vanguard of big Asian economies on the road to IFRS. India will undoubtedly wish to continue this leadership role in the future.

Sovereignty

In the final part of my speech I would like to say some words about the elephant in the room, which is the issue of sovereignty in accounting. I want to do this, knowing full well that India is one of the few countries in the world where elephants can actually show up!

I know that some people in India, but also in other parts of the world, are worried that adoption of IFRS leads to a loss of national sovereignty in accounting standard-setting. Let me not beat around the bush: it is certainly true that the adoption of IFRS puts a constraint on national preferences in accounting standards. Most countries around the world adopt IFRS lock, stock and barrel and have resisted tinkering with our Standards, no matter how big the temptation can be.

Still, I do not believe that all these jurisdictions have simply rescinded their sovereignty in accounting standards. They have instead made a free choice to pool their standard-setting in an international

organisation. In all jurisdictions, this free choice could be undone by a stroke of a pen. The entry barriers of recreating a national accounting regime are minimal. All you need is a licensing agreement with the IFRS Foundation, a couple of accountants in a room, and you can make all the carve-outs and carve-ins that you like.

The fact that so few countries choose to do so means they expect the benefits of having international standards vastly outweigh the benefits of having full national discretion in accounting. I talked earlier about civil aviation standards: does anybody bemoan a loss of sovereignty here?

Secondly, many jurisdictions do not accept our Standards blindly, but have an endorsement mechanism in place. They know that non-endorsement is rather like an atomic weapon, inasmuch as you would rather not use it. Still, they rightly believe it is an effective mechanism to make their voices heard in the standard-setting procedures of the IASB.

These days, very few doubt the ability, and the willingness, of the IASB to listen carefully to its stakeholders. Our due process and transparency are second to none, which ensures that we hear every opinion. In recent years, we have listened carefully to our stakeholders here in Asia: we solved Asian issues such as the accounting for bearer plants and residential construction.

In recent months, we have intensified our working relationship with the Indian Institute to discuss issues on which the Institute was considering diverging from IFRS. We were able to clarify many of these issues, enabling the Institute to keep the number of Indian carve-outs from IFRS to a minimum. We are firmly committed to continue this close working relationship in the years to come. India's full transition to IFRS is a decision that only India itself can take, but we intend to make it as easy as possible.

Close

Ladies and gentlemen, I appreciate your time and your ongoing support. Truly global standards are a reality for many industries, and accounting still has some catching up to do. I strongly believe that the introduction of Ind AS is a momentous step for India and I applaud the pace and determination for getting this done.

I look forward to a lively and informative conference.