

IFRS Foundation Speech

IFRS Foundation Conference Opening remarks

Date: 29 June 2015

Speaker: Michel Prada, Chairman, IFRS Foundation Trustees

Venue: IFRS Foundation Conference, Paris, France

Introduction

Ladies and gentlemen, distinguished guests, it is an honour and a great pleasure to welcome you today to one of the largest annual events organised by the IFRS Foundation, which happens to take place in my home city of Paris. As most of you know, I currently serve as the Chairman of the IFRS Foundation Trustees, who oversee the work of the IASB and deal with other matters, such as the strategy and governance of the IFRS Foundation.

It is also a great pleasure to introduce the prestigious speakers who will open this Conference, all of whom happen to be excellent colleagues and old friends of mine: Steven Maijor is Chairman of the European Securities and Markets Authority (ESMA) and served previously at the Dutch AFM, a securities regulator that worked closely with the French AMF and was deeply involved in the monitoring of Euronext, among other things. Gérard Rameix chairs the Autorité des Marchés Financiers and we have been working together for 11 years since I was in his present position myself. Many of you may remember how harmonious our co-operation was; it would have been difficult to identify the slightest difference of views between us. Hans Hoogervorst is also a former securities regulator as Chairman of the Dutch AFM. We have worked closely together at the International Organization of Securities Commissions (IOSCO) and the Committee of European Securities Regulators (CESR), and took similar views on most issues. Hans has been Chairman of the IASB since 2011. Finally, I am particularly pleased to welcome today Patrick de Cambourg, who—as well as being an honorary Chairman of Mazars, a well-known audit firm, which Patrick has transformed into one of the most respected global networks—has recently been appointed as Chairman of the Autorité des Normes Comptables, or ANC, succeeding Jerome Haas, whose demise, a year ago, was a shock to all of us.

Before I hand over to the speakers, let me begin with some thoughts of my own.

The journey so far

I would first like to summarise where we are today, after less than 15 years of a journey that started in the early 2000. At that time, while the old International Accounting Standards Committee (IASC) had done a good job, there were no internationally recognised standards and many companies, including French ones, would move to US GAAP when looking at global markets. I chaired the Technical Committee of IOSCO when this global organisation of securities regulators endorsed the core standards of the IASC in May 2000 and recommended their use for cross-border listings. This speeded up the process of reform of the IASC, as well as the setting up of the new IFRS Foundation and the 2002 EU decision to adopt IFRS for European companies listed on a regulated market. As a Frenchman, I am proud to have been involved in this undertaking, and to have enjoyed the support of the French business community. The European Parliament acknowledged the relevance of IOSCO's strategy in the original 2002 legislation on IFRS, which said, and I quote: 'it is important that the financial reporting standards applied by [European] Community companies participating in financial markets are accepted internationally and are truly global standards'.¹

Thirteen years later, Europe's leadership in international financial reporting has been fully vindicated.

First, the IFRS financial statements produced by European companies have contributed to the integration of the internal market and are indeed accepted internationally. Almost every country in the world, including the United States, allows IFRS for the purpose of cross-border listings and some 90 major EU companies are listed in the US using IFRS, representing close to 20 per cent of the foreign registrants there using IFRS. This was the original goal of IOSCO back in 2000 and it has been met.

Second, most countries in the world have now completed their transitions from national GAAP to IFRS. Earlier this month the IFRS Foundation published a detailed assessment of the use of IFRS by 140 jurisdictions that together represent more than 98 per cent of total worldwide GDP. Of the 140 profiles analysed, 116 jurisdictions, or 83 per cent, require the use of IFRS for all or most publicly listed companies, while most of the remaining 24 jurisdictions already permit its use.

Third, IFRS has provided important benefits to jurisdictions that have adopted the Standards. Earlier this month, the European Commission published its report on Europe's decade-long experience of IFRS. That review found that Europe's experience of IFRS had been positive, that companies were generally happy with their experience of IFRS, and that investors largely supported IFRS for improving the quality, transparency and comparability of financial statements issued by European

¹ Europa (2002), *Regulation No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards*, www.europa.eu

companies. These findings are broadly in line with other post-adoption surveys undertaken, for example by Australia, Canada and Korea.

This is a very important report, because it makes clear, without ambiguity and in an evidence-based manner, that IFRS has been a good thing for Europe, for European companies and for European investors. These definitive conclusions provide much-needed clarity about the EU's experience of IFRS. The EU's assessment will also provide comfort to other IFRS jurisdictions that they made the right decision, and provide encouragement to the other remaining jurisdictions to continue with their own plans to make the transition to IFRS. We welcome the conclusions of this report and its recommendations.

Within this European and global framework, I strongly believe that France should continue to play a leading role, and I would like to pay tribute to Philippe Danjou, a highly respected member of the IASB. Of course, I am aware that on specific issues, there may be sometimes diverging views in our country. But isn't this one of the charms of our beloved country?

I guess our foreign friends would be disappointed if we were to abandon our natural tendency to defend the French exception, even if I believe personally that it is better justified in the cultural than in the accounting domain. This commitment by French stakeholders is especially important, because growth across Europe remains sluggish when compared to other part of the world economy, such as Africa and Asia.

Indeed, it is already the case that more than 60 per cent of the net earnings of CAC 40 companies are generated from outside of France, and much of those earnings are generated outside of the European Union. Moreover, much of the recent up-tick in cross-border French mergers and acquisitions activity has involved transactions with companies located outside of the EU. These numbers are likely to continue to grow, in response to a variety of factors such as economic globalisation and the rebalancing of the world economy - from West to East and from North to South...

So, in summary, our Standards are now accepted around the world for cross-border listings, most jurisdictions have completed their transition to IFRS, while companies and investors in those jurisdictions are reaping significant benefits from IFRS. This is consistent with the continuous encouragement by the G20 leaders to finalise the goal of a single set of high quality, global accounting standards that was endorsed in the aftermath of the crisis in their meetings in Pittsburgh and London.

What is left to do now?

Priorities for 2015 and beyond

As part of the IFRS Foundation 2014 Annual Report, we have published a summary of our four strategic priorities for 2015 and beyond.

The first priority is to continue to invest in the quality and global applicability of IFRS. That means continuing to deepen the involvement of stakeholders around the world in our work. A good example of this is the *Investors in Financial Reporting* initiative that we launched last year, with the support of major institutional investors. It also means working in very close co-operation with the accounting standard-setting community. Last week, we announced the new membership of the Accounting Standards Advisory Forum, ASAF, which includes four Europeans—among whom I’m glad to count a member from the Autorité des Normes Comptables. The ASAF has become a very important forum for the IASB to discuss its work and concerns with representatives of the global standard-setting community, and we will continue to invest in its future.

The second priority is to pursue the goal of global IFRS adoption. That means deepening co-operation with existing members of the IFRS community while providing support to the remaining jurisdictions with their own activities in preparing to make the transition to IFRS. We continue to see encouraging developments in most parts of the world. For example, India has recently decided to adopt standards that are very close to IFRS and is on the right track, while in Japan we have seen an ever-increasing number of Japanese companies choose to adopt IFRS. The most recent analysis shows that close to 100 Japanese companies, representing around 20 per cent of total Japanese market capitalisation, have adopted IFRS or announced plans to do so shortly. We are expecting further development of this optional strategy, which is encouraged by Japanese authorities.

There are now only eight countries among the 140 researched that have retained national standards and do not permit any domestic companies to report using IFRS. Those eight are Bolivia, China, Egypt, Guinea-Bissau, Macao, Niger, the United States and Vietnam. The two standout names on the list are China and the United States, although both countries reaffirmed their commitment to a single set of high quality, global accounting standards as part of their 2014 *US-China Strategic and Economic Dialogue*.²

China is already quite far advanced in its transition towards full IFRS. In 2006, it switched to new Chinese Accounting Standards that are substantially converged with IFRS, while Hong Kong has been fully IFRS-compliant for as long as the EU has been. The IFRS Foundation Trustees will meet in Beijing this coming October and we are hopeful of making further progress towards the shared goal of global standards.

² US Treasury (2014), *UPDATED: U.S.-China Joint Fact Sheet Sixth Meeting of the Strategic and Economic Dialogue*, www.treasury.gov

The situation in the US is more complex, and somewhat unique to the US. The US is already a legitimate partner in our work. It is easy to forget that the US Securities and Exchange Commission has been a long-time supporter of our work, and today oversees the IFRS-compliant financial statements of almost 500 Foreign Private Issuers, foreign companies listed in the US, making it one of the largest IFRS overseers in the world. The Financial Accounting Standards Board, FASB, is an important contributor to the work of the ASAF. I do believe that the US will eventually come fully on board with IFRS. In the meantime, we will keep the door open and continue to work with relevant stakeholders in the US, including the FASB. So, the IFRS map of the world is not yet complete, but we continue to make good progress towards this goal.

Our third priority is to support the consistent application and implementation of IFRS globally. We have already achieved a great deal in this area, by working in close co-operation with other international, regional and national authorities. For example, two years ago we agreed a Statement of Protocols with IOSCO, to deepen interaction between the two organisations. That agreement has worked well and we intend to renew and extend this commitment in the coming months. At a European level we also have a similar arrangement in place with ESMA.

Education also has a very important role to play, particularly when it comes to encouraging greater consistency in the application of principle-based standards. We run a series of conferences, workshops and other events every year around the world as part of our Education Initiative. In the next year or so we will consider what role the IFRS Foundation should play in this area, possibly through the introduction of new educational products and services delivered through various online channels.

Our fourth and final priority is to protect and enhance the independence, stability and accountability of the IFRS Foundation and the IASB as the global standard-setter. In the next week or so we will publish for public comment a consultation document on the structure and effectiveness of the IFRS Foundation. The purpose of this review is to seek feedback on further enhancements on the activities, operation and governance of the IFRS Foundation. In addition to the consultation, we continue to seek ways to ensure that the Foundation has sufficient financing in place to fully discharge its responsibility as needed and I am glad to have this opportunity to thank France for its continuous financial support, which I often refer to as an example for other countries.

These are the four priorities that will guide the work of the Foundation in the coming years. Further details are available from the IFRS Foundation Annual Report and I encourage you to participate in the upcoming consultation on structure and effectiveness.

Conclusion

As you know, the Trustees are not supposed to deal with technical debates and I will leave it to Hans to update you on this. Allow me nonetheless to mention our strategic role with regard to the IASB's due process and to assure you that, contrary to some criticism I have occasionally witnessed here and there in some French media, and, I may point out, hardly anywhere else, the IASB does listen to all stakeholders around the globe. It makes independent decisions having considered the merits of all inputs and being faithful to its duty, which is to deliver the best possible answer to questions that have to be dealt with on a global basis.

Finally, because the debates on accounting have always been heated and there remain some misunderstandings, I encourage you to read and study our proposed revised *Conceptual Framework*, which has been put out for consultation and which clarifies a number of the philosophical issues at stake: namely, the objective of accounting and financial reporting in a market economy and the principles that our Standards should comply with. This is not exactly a thriller, but it is quite a remarkable piece of literature!

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