

**The IFRS Foundation's IFRS Conference  
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**KEYNOTE SPEECH:**

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Ladies and Gentlemen, Dear Michel, Dear Hans,

It is a pleasure to have the opportunity to discuss today and tomorrow the accounting standards that Europe was first to elect as its standards for listed companies. I am personally very happy that this year this meeting takes place in Paris, because I joined ANC, the French standard-setter, only four months ago; because this is my first opportunity to meet many of you and because the pivotal importance of accounting standards is fully recognised in my country.

In the parliamentary hearings that I went through before my appointment by the French Presidency, I pointed out the crucial importance of international accounting standards and the objective of establishing, and I quote, a 'confident and level playing field dialogue with the IASB'. I also indicated that a successful reform of EFRAG is a priority and a commitment. It is therefore a pleasure and an honour to share with you, at the IASB's invitation, four observations on a topic that is very dear to our heart.

**The first observation revolves around the evaluation of 10 years of IFRS implementation in Europe:**

The European Commission's evaluation process and its report published 10 days ago are very timely. From a democratic perspective, it is indeed the right time to draw the lessons from the period since the major initiative taken by Europe, when it adopted the IAS regulation. We are talking about a matter that, beyond the technicalities, is a matter of public interest and the technical dimension should not blur the public good dimension. So it is absolutely paramount to sit back and consider on a regular basis the bigger picture.

In retrospect, the decision taken in 2002 was pragmatic and can be considered to have been beneficial for the EU overall. The EU has implemented a common accounting language. That was the purpose and it was a must. Mission accomplished!

Has it been easy? The answer is 'no', in my view. Significant efforts had to be made and have been made. Technical hurdles had to be jumped over and have been jumped over. And heated, but important and necessary, debates have taken place because of (i) a level of increasing complexity, (ii) the test of the financial crisis and (iii) a perceived pro-finance rather than pro-business orientation. In the area of accounting principles, I do not think there are many examples of such a change in so short a period of time. Everybody has played their part and few areas can pride themselves, and rightly so, on having achieved so much in only 10 years. This is commendable and we should pay tribute to all participants.

Has it been perfect? The answer is also 'no', in my view, but it is inevitable in a period of setting the foundations. And if anyone wants to summarise the areas of concern that have emerged and remain, two major points may be mentioned.

The first one is the constant difficulty of fine-tuning the institutional relationship between a very significant economic area that has regulatory responsibilities and democratic accountability and a private organisation that has de facto developed as a strong standard-setter with delegated responsibilities, subject to thorough endorsement, of course. Whether we like it or not, governance, financing and due process are, and will be, recurring topics. There is probably no perfect solution, so successful dialogue and understanding are key if we want to avoid radical changes.

The second area of concern is the technical options taken that are perceived as having an impact on the economy and on society. Even if Europe, because of its very diverse nature, sometimes struggles to arrive at a common view, this should not be perceived as a weakness that leads to discarding of the views expressed, but, on the contrary, as an asset that can be used as a springboard for relevance and progress. In addition, beyond diversity there are core principles that are already embedded in the European common accounting culture and law and that, no doubt, will be developed further.

**The second observation is that we are moving into a new stage of standard-setting in Europe.**

Should we be satisfied with the current situation and just relax? Here also, the answer is 'no', in my view. Certainly not! Because we Europeans have a lot to achieve. After the initial implementation phase, during which everybody concentrated on the practical priority of implementing it properly, we are entering a phase of reflection and consolidation.

In order for this new phase to be positive, the first challenge is obviously to strengthen the standard-setting capacity of Europe. To start with, we need to make a success out of the EFRAG reform. Following the Maystadt report, Europe has introduced three key modifications to its initial arrangement: a second level of governance with the addition of a Board to the TEG, in order to complement the technical dimension with a specific public interest dimension; the creation of full continuity between standard-setting capacity at national level and at European level via the membership of national standard-setters at Board level; and, finally, a privileged link with the EU institutions via a President selected by the Commission and approved by the Parliament and the Council. It is early days and, because of unfortunate circumstances, we are still missing a permanent EFRAG President, which is unavoidably the cornerstone of the reform. But since the end of last year the general feeling is that we are on the right track. However, we still have to work hard and remember that the implementation of the reform is being watched closely, and that we have a rendez-vous clause at the end of 2016.

As outlined by the Commission, we need to establish the right level of co-operation between all contributors and decision-makers. I do apologise for insisting on it again, but the European public good dimension has to be fully taken into account via appropriate dialogue with our political institutions. The level of understanding and buy-in in Europe needs to improve significantly.

**The third observation is that we must pay extra attention to the general principles underlying standard-setting.**

We must be conscious of a critical difference between two approaches that may create major misunderstandings. In some jurisdictions, the system is highly flexible, the underlying philosophy is established step by step, case by case, and this philosophy is aspirational and non-binding. In other jurisdictions, there is more structure in the law-making: the Constitution is above the law, which is itself above the regulation. In other words, the Constitution and/or law establish principles that cannot be contradicted by regulations. I am stating the obvious here and I do apologise.

In Europe, law is giving us a number of references, which we call the EU criteria. I am making explicit reference here to the IAS regulation and to the accounting directives. The principles that are established are rather general, but, when one drills down, they express a certain culture and a number of options. They are law and therefore binding. In a nutshell, even if the EU criteria are somehow general and require further development, they are derived from the second approach when the IASB's system is closer to the first approach!

As a consequence we need to perform a continuous exercise of reconciliation between the criteria set out in EU law for proper accounting principles endorsement and the standards developed by the IASB. A confident, constant and innovative dialogue, which has to be a constructive two-way traffic, is needed, in particular at a moment that is a turning point because of the end of the convergence process between IFRS and US GAAP.

This is why the IASB'S *Conceptual Framework* discussion is key in my view. It is a very healthy exercise, which is designed to revisit, and agree upon, the fundamental underlying concepts in an open manner. It is also an opportunity to create understanding and buy-in. In many of our European jurisdictions, as I said, such principles are perceived as having a higher legal status than the standards themselves. As a consequence, the exercise should not be rushed. The time that that may seem lost today will be saved in the future and the overall landscape will be a lot clearer.

In order to avoid misunderstandings in the future, there should be a serious discussion, and—if possible—agreement, on key concepts, such as (to name a few): the users of accounting and financial information; the sense of the 'true and fair view' principle; the meaning of prudence; the consequences of the 'substance over form' concept; the debate on profit and loss versus OCI; the border between historical cost and fair value, the pros and cons of each system together with the mitigating factors under circumstances of stress and the decision tree to determine the appropriate measurement in connection with the relevant business models; the treatment of long-term investments... I know that many of us may think that the debate has in large part already taken place. However let me point out that we need these few extra miles in Europe, in the context of the new phase of standard-setting in Europe that I already mentioned...

It is needless to say again that the principles are key in a principle-based accounting system! It seems a truism, but it is basic and fundamental. How can IFRS be implemented in diverse jurisdictions without such an overarching reference? How, without such principles, to avoid

making reference, in case of hesitation, to US GAAP which is rule-based and with extensive guidance?

**The fourth and final observation addresses the development of the standards themselves.**

If we want to encourage understanding and buy-in, this development (i) needs to be pursued in a coherent manner, (ii) has to address emerging issues and (iii) has to avoid excessive complexity. This, with proper impact assessment, is a challenge, for EFRAG as well as for the IASB.

IFRS 9 is of course a priority, with a few concerns. As the IASB is already aware, applying the standard to insurance activities is probably the most important concern, because modifying assets without modifying liabilities is an issue. As a consequence there is a suggestion that it would be wise to connect IFRS 9 and IFRS 4 phase 2 for insurance activities, in order to avoid two major changes in a row and disruption at the industry level. Other concerns are related to impairment methods, which may create differences between the various business models; to the use of fair value under certain circumstances; to the treatment of long-term investments in a context in which recycling is not possible.. None of these concerns are unmanageable, in my view.

The other key standards in the short term are the forthcoming standard on leases, IFRS 4 phase 2 for the obvious reasons already mentioned, performance reporting and the Disclosure Initiative. On this last topic ANC took the initiative to publish two recommendations in 2012, followed in the last few days by a guide to best practices prepared by AMF. The agenda consultation will also be important, in conjunction with the research programme. May I mention that ANC is organising its fifth Symposium on accounting research on 11 December of this year? The topic will be: 'the Conceptual Framework and the EU principles'.

**If I have to summarise from a European perspective, I would say: 'a good level of achievement in retrospect, but prospectively a number of challenges and a lot to achieve as a consequence'!**