

## Better Communication

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### Introduction

Ladies and gentlemen, it is a pleasure to be with you here in Zurich, one of the world's great financial centres and home to many global corporations. There are well over 300 participants from more than 50 countries at this Conference, which makes this event a great place to talk about our work to develop a global language of financial reporting.

Today, I will talk to you about the work of the International Accounting Standards Board (the Board) and how it has changed financial reporting around the world. I will also share with you my insights into what will be the central theme of our work in the next five years.

### Changing financial reporting around the world

Every organisation needs a clear, crisp definition of its mission. Last year, I led a working party that set out to describe more clearly the relevance of IFRS Standards to the global economy. The outcome of that project was a brand new mission statement for the IFRS Foundation. The essence of the statement is explained in the following two-minute video, which has been viewed more than 20,000 times. Please take a moment to watch it.

So there you have it. Our mission is to develop Standards that bring transparency, accountability and efficiency to the global economy. This is certainly a worthwhile goal. But what does it mean in practical terms? How are we doing against this objective? What is left to do?

When the Board began its work in 2001, it was clear what needed to be done. First, the Board needed to upgrade the old International Accounting Standards developed by its predecessor body, the International Accounting Standards Committee. Second, it needed to persuade jurisdictions around the world to switch from national to international standards.

Fifteen years later, we have made good progress on both fronts. Let me talk about each in turn.

## Global adoption

In the past 15 years, we have seen more than 100 countries switch from national to international standards. The European Union, Australia, New Zealand, Hong Kong and South Africa led the first wave of jurisdictions to adopt IFRS Standards. This was swiftly followed by much of South America and Africa. The last few years have been a story of Asia embracing IFRS Standards.

Our own research, which now covers 143 jurisdictions, shows that nearly 120 of those jurisdictions now require the use of IFRS Standards by all or most publicly accountable companies. IFRS Standards are required in almost all of Europe, Latin America, Canada, large parts of Africa, the Middle East and Asia/Oceania. This makes IFRS Standards among the most widely applied in global finance.

Almost all the remaining jurisdictions that have not yet fully adopted IFRS Standards allow their use on a voluntary basis. For example, Switzerland does not require IFRS Standards and is therefore not included in the list of 120 adopters. However, the majority of companies listed on the Swiss main market elect to use IFRS Standards as issued by the Board. Japan is in a similar position. More than 130 Japanese companies have voluntarily adopted IFRS Standards or announced plans to do so. That is more than 30 per cent of the total market capitalisation of the Tokyo Stock Exchange.

There is still some work to do before the IFRS Standards map of the world is complete. Among the G20 economies, China, India and Indonesia are very close— with China and Indonesia both reaffirming their commitment to achieve full convergence with IFRS Standards. In the United States we expect no major progress in the short term, but IFRS Standards can be used by foreign issuers on the American capital market. The direction of travel is clear, and we should not fret too much about the time it takes for the remaining countries to come fully on board.

## Improved quality

While the world has been busy adopting IFRS Standards, we, the Board have been working hard to deliver substantial improvements to the quality of our Standards. In doing so, we have worked in close cooperation with the worldwide standard-setting community. The best ideas from around the world have become the global Standards.

We have plugged the big holes that existed in the old set of Standards and introduced important improvements in existing IFRS Standards. The major projects of financial instruments, lease accounting and revenue recognition have been finalised, while the new insurance contracts Standard is being completed.

These are material improvements that will enhance the quality of financial reporting. However, I have a great deal of sympathy for people who have had to deal with this continuous change. You have been living in a bit of a building site for much of the last decade. However, the good news is that the majority of the structural work is now complete. The heating and plumbing systems are now in good shape.

Yes, there are still some gaps in our Standards, such as Extractive Industries and possibly Rate Regulation. Over the coming years, we will continue to update Standards that can no longer stand the test of time. But the upheaval caused by these changes should be less than the big Standard changes of the last 10 years.

## **What next?**

With many of the major projects out of the way, and a big part of the world now fully on board, it is now a good time to ask ‘what next?’ What should we focus on in these coming years? My second term as IASB Chairman begins tomorrow, so I thought today would be a good time to discuss this.

To help us answer this question, we have sought feedback through an Agenda Consultation. We have also consulted with various advisory bodies, including the Accounting Standards Advisory Forum (ASAF), which consists of standard-setters from around the world, and the IFRS Advisory Council. While we are still working on finalising our detailed work plan, the overall themes are clear.

## **Better Communication**

Our Standards are now widely perceived to be high quality and their added value in terms of Recognition and Measurement is not seriously challenged. Although this is clearly good news, there is no reason for complacency. High quality, IFRS-compliant financial information is ‘necessary but not sufficient’ for financial reporting to achieve its communications objectives.

We must recognise that preparers sometimes experience financial reporting as too much of a compliance exercise and investors sometimes believe that the financial statements depict performance in an insufficiently clear manner.

Valuable information gets drowned out by ‘tick the box’ disclosures and voluminous, but poorly organised and presented financial data. Increasingly, preparers present their investors alternative performance measures, which are not based on IFRS Standards. This information is easier to consume by users, but it almost always paints a rosier picture than reality and can be highly misleading. In addition, many companies present non-financial information on, for example, sustainability issues. For the investor, it is often difficult to see the woods through the multitude of information trees.

The Board therefore needs to do more work to increase the communication effectiveness of financial statements. For this reason we have decided that ‘Better Communication’ will be a central theme of our work in the coming years. To make sure financial statements communicate as clearly as possible, we will take a fresh look at how financial information is presented, how it is grouped together, and in what form it is made available.

## Work streams

One of the central building blocks in our work to improve communication in financial statements will be our Primary Financial Statements project. This project will potentially result in a facelift of what is often called the ‘face of the financial statements’. Its focus will be to improve the organisation of the statements of financial performance (profit or loss and other comprehensive income), the statement of cash flows and the statement of financial position, also called the balance sheet.

The big questions here are to what extent the Board should provide more structure to the statements of profit or loss, including the use of subtotals. Currently we define Revenue and Profit or Loss, but not so much in between. We might decide to develop a principle-based definition of operating income. Maybe we should bring some of the more commonly-used non-GAAP terms, such as Earnings Before Interest and Tax, or EBIT, into the IFRS ‘Lexicon’.

Many of our constituents have asked us to further develop our thoughts on OCI after we finish our work on the Conceptual Framework. Maybe we could even succeed in finding a better place for elements of income that are currently parked in OCI.

Another area of work that will help improve communication in financial statements is our work on the ‘Disclosure Initiative’. Since starting this project in 2013, we have already made some important changes to improve disclosures. One example is the amendment to IAS 1 *Presentation of Financial Statements*, which clarified that companies should use judgement when deciding what information to disclose in their financial statements. This should make it easier for preparers to improve the quality and hopefully reduce the volume of their disclosures.

We are also finalising a Materiality Practice Statement, which will give more guidance to company managers on how to deal with thorny materiality questions. There is more work to do in this area, but the lessons learned from the Disclosure Initiative project so far will be very helpful for other related projects.

The Financial Instruments with the Characteristics of Equity project, or FICE, is a project which should result in a clearer distinction between liabilities and equity. It should help improve communication by looking at the recognition and presentation requirements for complex financial

instruments. This should improve the relevance of both the statement of financial position and the statement of P&L.

Better Communication will also be home to our work in the area of digital reporting. We have, for many years, maintained an IFRS Taxonomy, a classification system for IFRS requirements that enables financial statements to be tagged consistently in an electronically readable format.

Many investors already consume IFRS Standards information through electronic media. We expect this tendency to be increasingly pervasive in the future. Currently, investors often use data aggregators, who add their own industry tags and other related information. The big question here is to what extent our Standards can and should meet a broader range of electronic reporting needs. This question ties in with our possible efforts to provide more structure to the income statement.

Finally, the last part of the Better Communication theme that I will touch upon today is the question about non-financial reporting and what role the Board should play in this area. There are hundreds of initiatives dealing with non-financial reporting. For example, the International Integrated Reporting Council, the Global Reporting Initiative, the Sustainability Accounting Standards Board and the Financial Stability Board's Enhanced Disclosure Taskforce and many, many more. The world of non-financial reporting is still very far removed from the crystallisation of a single set of global standards.

Non-financial reporting is relevant to us, but to what extent should we participate, or even take a lead in these initiatives? We do not anticipate enlarging the scope of our work significantly, but will take a fresh look at this issue.

Better Communication will be an overarching theme and a source of inspiration for the coming years. It responds to much of the feedback we received through the Agenda Consultation, and will hopefully deliver material improvements to the decision-usefulness of financial information.

## **Implementation support**

Let me now move to talk about some of the other work we anticipate doing over the coming years. We have heard strong support for the Board and the IFRS Foundation to play a more active role in supporting jurisdictions to implement new and existing IFRS Standards.

We already undertake a fair amount of work in this area, through the IFRS Interpretations Committee, through our Education Initiative, through Post-implementation Reviews of new Standards and through the work of various consultative bodies, such as the Emerging Economies Group. However, each of these functions has been sitting in different parts of our organisation, under different reporting lines.

Moreover, given the limited resources at our disposal, we have in the past disbanded project teams once the final IFRS Standard has been issued. As a consequence, much of the project knowledge and

intellectual property related to the Standard is not captured in the most effective way. So we feel we can do more in this area.

We have tasked Henry Rees and Patrina Buchanan, two of our most senior technical staff, to lead an enlarged team that will organise a programme of activities to help jurisdictions with the implementation of our Standards. We have moved all relevant functions into this new team and we are in the process of developing an overall plan for the next few years.

Some of this work will be undertaken directly by the Board or the IFRS Foundation, while other aspects of this work will be undertaken in partnership with others. We recently updated our agreed Statement of Protocols with the International Organization of Securities Commissions (IOSCO), and this is a good example of such a relationship.

Developing and maintaining IFRS Standards will always be the core of what we do. But we do see an opportunity to make better use of the technical teams involved in developing new Standards. This will help us to develop a wrap-around of resources and programmes to help jurisdictions to implement our Standards on a globally consistent basis.

## Close

In summary, the Board, supported by the worldwide accounting standard-setting community, has achieved a great deal in the last 15 years. The initial objectives have largely been met, with IFRS Standards seen as high quality and required for use by the vast majority of countries around the world. Our attention now turns to making financial statements better tools in the communication between companies and their investors—and to providing greater support to jurisdictions applying those IFRS Standards.

I thank you for your time, and look forward to your questions.