



31st Annual Conference of
The International Organization of Securities Commissions (IOSCO)

7th June 2006
Hong Kong

**Panel 1: International Financial Reporting Standards (IFRS)
– Initial Experiences**

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Final Speaking note – Mark Vaessen

OICV - IOSCO 31st Annual Conference, Hong Kong, 5-8 June 2006

Given the magnitude of the change-over to IFRS, overall the transition seems to have gone relatively well. No real big surprises or shocks have emerged so far. That is not to say that the transition was painless.

A huge amount of effort has been put in by everyone involved to make this happen. The learning curve for all of us has been steep – it's been a big educational effort - perhaps not surprisingly, given the many new and revised standards everyone had to deal with in a relatively short period of time, and the coordination efforts that are required to deal with global, rather than with national, standards.

The benefits of having international standards are still to come through in full, in terms of improved comparability and in many cases improved transparency, and they no doubt will. People may not have perceived these benefits yet. This will take some time.

Early on the audit firms recognised that the real challenge of having international standards lies in their consistent application across many different countries, all with their own different educational, legal and cultural backgrounds. Consistency does not mean identical application in every case, but having an acceptable answer within the boundaries of the standards for each particular case.

I am confident that, over the past years, the large audit firms all built up a global infrastructure to deal with IFRS consistency. In my firm's case, this infrastructure includes:

- globally developed training programmes;
- a global network of IFRS specialists, directed by a global policy committee that takes ultimate positions for our network on IFRS interpretations, and coordinated by a central IFRS group in London;
- extensive consultation procedures at both national and international level;
- in-house reviews of financial statements;
- shared databases;

- and finally, we prepare publications to give application guidance to all our audit professionals and the outside world.

In addition to promoting consistency within our own networks, the firms also discuss emerging practice issues at national and international level on a regular basis. If there are differences of opinion between the firms on significant application issues, these are referred to IFRIC's agenda committee for consideration.

Consistency of application will remain the main challenge for the near future. Partly it will improve as we move from the initial transition phase into a more steady state –as the current set of standards are becoming more familiar and emergence of new application issues will slow down. In addition, peer comparisons within industries are still to take place, now that many first IFRS financial statements have been published. This benchmarking should help best practice to emerge. Analysts are expected also to drive this process. But it will not all come automatically.

Key to consistency will also be how the regulators approach the issue of enforcement. Some regulators are involved in pre-clearance, which may assist consistent application within a particular country, but does constitute a risk of creating local interpretations and thereby creating inconsistencies between countries. The efforts by CESR and by IOSCO to coordinate their enforcement decisions through discussions and shared databases at EU and international level respectively, are therefore very much needed and very welcome.

The principle-based nature of IFRS only can be maintained if a degree of judgment in application continues to be allowed for. This may be a challenge, notably in those environments, like the US, where traditionally emphasis has been placed on strict application of detailed prescriptive rules to achieve comparability in one single jurisdiction.

Second-guessing of judgments made in good faith, in areas where IFRS do allow room for judgment, for example because of implicit options in the standards, would be detrimental to a principle-based system and, due to litigation risk, lead inevitably to a more rules-based approach.

The IASB also plays an important role here.

- Firstly, IFRIC needs to be made to work effectively and efficiently to address more timely the significant application issues that arise, by allocating the right level of resources to IFRIC's activities. I am pleased to note that this now seems to be the case.
- Secondly, the Board, in setting its work programme priorities, should not be driven by convergence alone. Although convergence remains an important longer term objective, in the shorter term we do need time for everyone to get familiar with the current set of standards, to let it bed down and build up the experience.

The current IASB work plan, whilst recognising the need for stability, still envisages quite a number of changes in the shorter run, mainly coming out of the short-term convergence projects (like segment reporting, borrowing costs or income taxes.) The question is whether it is actually necessary to make changes in these areas where the current IFRS standards have only just been implemented and, by and large, seem to be working well. Is convergence in itself sufficient to make the case for change? Probably not!

If changes are needed in the shorter term, as auditors we would like to see them being made in improving the current set of standards in order to help the settling-in process, for example in areas such as puttable minority interests, service concessions or common control transactions, where frequently practice issue arise and inconsistencies remain.

- We would like to see the IASB take time, as much as is needed, in order to consult widely on some of the more fundamental questions that will significantly impact on the direction of future standard setting and to listen carefully to what its constituents have to say. These questions include the discussion on the conceptual framework and the use of fair value accounting, as well as concerns expressed about the increasing complexity of accounting standards. All of these are crucial issues that need to be given the time to reflect upon. The planned consultations by the IASB, by way of roundtables on fair value accounting and discussion papers on the other conceptual framework issues, are the right steps. We would expect from IASB Members that they not only listen to the constituency but also duly reflect the arguments made and, thus, in their basis for conclusions set out their reasons if they do not

accept proposed changes/amendments to an ED or Discussion paper.

In summary:

From my perspective the experience with implementing IFRS is: “So far, so good”.

Consistency remains the key challenge, for preparers and auditors, as well as for regulators and the IASB. The forthcoming months will tell how well we have done so far, when the various national regulators each will go through their process of reviews of financial statements filed with them. The enforcement approach taken by individual regulators, as well as the effectiveness of their coordination efforts at cross-border level, will be an important test as to whether a principle-based system will work at an international level. The coming months will - no doubt - set the tone for the future.

I truly hope that the answer to all this will be positive, because there is no real alternative.

As auditors we are committed to continue to play our part in promoting global consistency of IFRS - we have come a long way already, but recognise that also for us a lot of work remains. With a joint effort of all parties, I am confident that we can make the vision of international standards work. For the benefit of the capital markets.