

Regulator's Perspective on IFRS Financial Statements

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Thank you for this opportunity to give a regulator's perspective on IFRS and how IFRS is being applied around the world.

Singapore – what better place to talk about bringing the markets of the world together. A beautiful city built on international trade and commerce. Today Singapore has the world's busiest port; the most internationalized stock market; the best reputation as a place for doing business¹.

This city is a meeting place of real importance in the global marketplace and economy. Also, it is home to a particularly effective and internationally-minded IOSCO member, the Monetary Authority of Singapore. I feel among friends here.

Today I will talk about IOSCO's strategic priorities and how we are encouraging the use of IFRS around the world.

There will be two themes – firstly, securities regulators see financial reporting as fundamentally important. This is because the quality of financial reporting by issuers is inextricably linked to the fairness, efficiency and transparency of securities markets.

¹ Singapore consistently receives the highest rating in a "Best Business City in the World" poll among readers of the Business Traveler Asia-Pacific magazine.

Secondly, I will stress the importance of moving to one set of globally recognised accounting standards.

Adoption of IFRS is a key imperative for those involved in financial reporting and accounting standards setting. But, it is no less important to securities regulators. Common global standards are a core concept for IOSCO and its work programmes.

IOSCO – Background

For those unfamiliar with it, IOSCO is the International Organisation of Securities Commissions. We are the international standard setter for securities regulation. Our members include 109 regulatory agencies and many other affiliate bodies.

IOSCO works alongside the Basle Committee on Banking Supervision and the International Association of Insurance Supervisors - the global standard setters for banking and insurance.

IOSCO was a founding partner of the Public Interest Oversight Board which shares premises with IOSCO in Madrid. The PIOB, chaired by Professor Stavros Thomadakis, is doing great work to increase confidence in the public interest activities of the International Federation of Accountants.

IOSCO has a clear vision of markets which operate across the world on sound principles and standards, and regulators who can cooperate and exchange information across borders to enforce securities law.

IOSCO has grown steadily since it was established in 1983. Members regulate more than 90% of the world's securities markets and this percentage continues to grow. Few other organisations can claim similar or greater global representation.

We also have an enviable reputation for building consensus and cooperation among members in both emerging markets and developed economies, often on some very difficult issues.

IOSCO has a de-centralised structure. Committees of members from all parts of the world work on complex issues of common concern. I am privileged to Chair the 19-member Executive Committee - the organisation's governing body. At all levels, we are proactive in identifying issues that warrant regulatory attention and responding to developments in capital markets.

Since 2005, the organisation has committed itself to four strategic priorities. First, IOSCO is confirming and developing its role as the global standards setter in securities regulation. We meet regularly with the Basle Committee and the IAIS in a Joint Forum on issues of common regulatory concern to the securities, banking and insurance sectors. This ensures consistency in financial market regulation at a global level.

We work alongside other international bodies with which we share a responsibility to maintain stability and growth in the world financial system and economy. These include the Financial Stability Forum, the IMF and the World Bank. IOSCO also has a close relationship with the International Accounting Standards Board, obviously another global leader in its field.

To be effective, IOSCO recognises the need to maintain and build its standing among the international financial community through engaging with others and focusing on issues that are of concern to us all. In this context, we are encouraging our member jurisdictions to adopt IFRS.

Our second strategic priority is to increase the number of member jurisdictions that have implemented IOSCO's *Objectives and Principles of Securities Regulation*. During the late 1990s, IOSCO identified three objectives of securities regulation. These are to:

- ensure that markets are fair, efficient and transparent;
- protect investors; and
- reduce systemic risk.

To support these goals, IOSCO established 30 broad Principles for securities regulation. The Principles are sufficiently high level to enable all jurisdictions to implement them in any institutional or legal setting.

The current aim is to implement the Principles in the regulatory framework of every member jurisdiction - leading to consistently high standards of regulation around the world. To help achieve this, IOSCO provides technical assistance, advice and training to members working on implementation.

IOSCO's third priority is to promote greater cooperation between regulators. As capital markets become more global – and markets converge across borders – regulators must take an even more international perspective. IOSCO has been particularly proactive in this regard. In 2002, members adopted a *Multilateral Memorandum of Understanding on Consultation and Cooperation, and Exchange of Information* – the “IOSCO MOU”.

This defines the legal authority that regulators must have to cooperate and exchange information for enforcing securities law. It also sets out conditions under which these exchanges should occur. IOSCO has a clear vision of effective cooperation between securities regulators for enforcement across jurisdictional borders. This is happening with increasing frequency under the IOSCO MOU, and it is imperative in today's globalised securities markets

IOSCO has adopted a deadline of January 2010 for all member regulators to become full signatories to the IOSCO MOU or to have formally committed to doing so. To date, 41 members are signatories and 15 more are committed to addressing issues that prevent them from signing on to the IOSCO MOU.

Progress over the past year has been very pleasing – another indication of how effective IOSCO has become as a global organisation. Securities regulators recognise the need for greater cooperation to keep pace with the markets and they are taking up the opportunities offered by IOSCO.

The fourth priority concerns IOSCO's engagement with stakeholders and representative bodies. We are very aware of the need to work closely with the industry. The Technical Committee, which drives and oversees most of IOSCO's standard setting work, engages regularly with

industry and industry bodies. They give useful feedback on how regulation can be made more practical and cost effective. None of us want regulation for its own sake – and IOSCO is committed to securities regulation that is not only of a consistently high standard, but is also workable and accepted by market participants.

The Technical Committee routinely seeks comment on its work programme from industry and professional bodies. It recently received valuable feedback on current IOSCO initiatives in relation to IFRS – and I now turn to these.

We are advocates for International Financial Reporting Standards. The consistent application of high quality financial reporting standards in all jurisdictions is entirely in line with our broader push for convergence in securities regulation. Many of our members are responsible for oversight of financial reporting and application of standards, and all securities regulators have a strong stake in the quality of financial reporting.

Back in 2000, the Technical Committee assessed the 30 core international accounting standards of the IASC 2000 Standards. IOSCO then recommended that members permit multinational issuers to use these standards, with any supplementary notes required to cover substantive accounting issues at national or regional level.

Today we support the ongoing work of the International Accounting Standards Board in developing IFRS as a globally-accepted set of high quality international standards. At the same time, we recognise that variations can occur in interpretation and enforcement of the standards. Those variations have the potential to undermine the whole purpose of moving to IFRS.

IOSCO wants to promote consistency in regulatory interpretation of IFRS – and we are doing this through a database of decisions taken on IFRS issues. The database is a reference for members, especially those with formal responsibilities in this area.

The aim is to promote a high level of consistency in regulatory interpretation of IFRS and in regulatory decisions on how IFRS is being applied by issuers. However, IOSCO has no role in

providing general interpretation of IFRS – that is the role of the IASB and the International Financial Reporting Interpretations Committee.

The database became fully operational in January 2007 and is maintained by the IOSCO General Secretariat in Madrid. So far, 46 securities regulators have agreed to take part in the database. They will use it to guide their own decision making and as a repository for those decisions for future reference. Where there are obvious multiple interpretations, IOSCO will refer them to the IASB or the Interpretations Committee.

The database may also include regulatory decisions other than those made by securities regulators. IOSCO members signed on to the database can enter decisions taken by other regulatory agencies in their jurisdiction. Once members sign on to the database, they must use their best efforts to stay informed on regulatory interpretation and enforcement of IFRS standards worldwide. I add, at this point, that IOSCO will hold a training seminar for members on issues around the transition to IFRS, in October this year.

Technical Committee (SC1 on Multinational Disclosure and Accounting) – Work Programme

IOSCO has a full programme of work, including the activities of the Technical Committee SC 1, which undertakes work on multinational disclosure and accounting. It examines issues of accounting, auditing and disclosure that impact on securities markets. It comments on most IASB exposure drafts and its submission letters are available on the IOSCO website. SC1 has two representatives on the IASB Standards Advisory Committee and an observer at IFRIC meetings.

SC1 has focused on facilitating consistent regulatory interpretations of IFRS and built the IOSCO IFRS database. Monitoring the adequacy and quality of international accounting standards and their interpretation is a standing item on its agenda. SC1 comments to the IASB as it sees appropriate.

IOSCO recently called for feedback on its technical work programme. Responses were very encouraging, including those from the International Federation of Accountants and the major accounting firms. There is a great deal of support for IOSCO work to help to move issuers to a global set of accounting standards.

It is widely recognised that investors should be able to understand and compare the financial statements of issuers from different jurisdictions. This is particularly important for issuers in emerging markets who seek capital from international investors.

SC1 also responds to emerging issues. For example, it published a report on the regulatory issues raised by Parmalat and other corporate collapses. It found that unconsolidated entities and complex corporate structures had been used to perpetrate fraud. Some of the corporates concerned gave an incomplete picture of their financial position by not disclosing the transfer of assets and liabilities to such entities.

In late 2005, SC1 surveyed the accounting and non-financial statement disclosure requirements currently applying to the use of unconsolidated special purpose entities - and the level of audit assurance required for this information. Since the survey, several members have implemented regulatory and legislative changes.

The issues of disclosure remain critical to good corporate governance and IOSCO will continue to work closely with the IASB to ensure greater transparency in the global capital markets. Our work on IFRS is one such example.

IFRS – Individual IOSCO Members

IOSCO promotes the application of international standards and encourages consistency in how this is done. Ultimately however, each IOSCO member jurisdiction must decide to make the transition to IFRS, and individual regulators must make enforcement decisions appropriate to their circumstances.

In this regard, all eyes are on the United States where the Securities and Exchange Commission issued a “Roadmap” for convergence in 2005.

In another step along the way, last month the SEC issued a new proposal for consultation. This would eliminate the current requirement for foreign private issuers to reconcile their financial statements with US Generally Accepted Accounting Practices (US GAAP) where those statements are prepared using IFRS – subject to certain conditions.

In other words, IFRS may become sufficient for private foreign issuers in the US. We commend the SEC for their commitment to bringing this matter to global attention. We recognise that while there may be debate about some of the conditions this represents a very constructive initiative by the SEC.

NZ Transition to IFRS

In a completely different jurisdiction – but one I am more familiar with – the New Zealand Securities Commission runs a financial reporting surveillance programme with a special focus on the IFRS transition. New Zealand has made IFRS mandatory for reporting periods that begin on or after 1 January 2007. Early adopters made the move in respect of periods beginning on or after January 2005.

In our jurisdiction, we consider that the level of compliance with NZ IFRS for the early adopters has been generally good, but we have found a number of common non-disclosures.

Common non-disclosures

We found a definite need for issuers to explain the financial impacts of transition from NZ GAAP to IFRS and also to clearly separate out any adjustments relating prior period errors which cannot be classified as transition adjustments. We are encouraging issuers to provide enough narrative description with their first IFRS accounts to keep the market informed on material IFRS adjustments.

Adopters also need to spell out management judgments and key assumptions and estimates made in preparing the accounts, especially where these judgments significantly affect amounts recognised in the resulting financial statements. The disclosures that we observed said very little. The Commission will monitor these disclosures as part of its ongoing surveillance programme. We accept that with adoption the devil is often in the detail!

The New Zealand Securities Commission is using its public reports to give feedback to preparers, auditors and advisers on issuers' adoption of IFRS.

We also liaise frequently with the New Zealand Institute of Chartered Accountants and with accounting firms on IFRS issues. Our surveillance programme letters to issuers are copied to their auditors. Our current emphasis is on education, but we will take enforcement actions if there are breaches of accounting standards by issuers in their reporting.

Where to from here?

The IASB under the leadership of Sir David Tweedie has made huge strides towards the goal of a single set of global accounting standards. IOSCO is also committed to one set of global standards being applied to preparing financial statements.

There are challenges ahead for the IASB as it is a huge task to develop a set of accounting standards that will appeal to and satisfy so many stakeholders.

I strongly encourage users and preparers to contribute their expertise towards this goal by commenting on IASB's draft standards. Participation by all stakeholders in the consultation process will help ensure that the published standards are of the highest quality.

IOSCO supports the work done by the IASB and SEC to encourage the move to one set of global standards.

In some jurisdictions around the world, some legislators and/or regulators have specified an accounting framework that is based on IFRS but which does not fully comply with IFRS as

published by the IASB. Frameworks like this may lead to variations which do not contribute to the goal of a single set of standards.

It is important for the users of financial statements to be able to understand the accounting framework on which a set of financial statements is based. Users cannot be expected to keep track of the variations of IFRS adopted in various jurisdictions.

The usefulness of IFRS information has been discussed in several recent surveys², and I often receive comments about progress with IFRS. What appears to be emerging is that although preparers have some anxiety about the implications of IFRS on earnings reporting, and some company directors are quizzical about comparing pre and post IFRS results figures, investors seem happy that IFRS is providing better information.

There are suggestions that market-driven alternative non-GAAP performance measures may marginalise statutory reported IFRS financial information. I believe that this is not an IFRS issue. On the contrary, where more disclosure helps the understanding of the financial statements it should be encouraged.

The Committee of European Securities Regulators has published guidelines for the use of alternative non-GAAP performance measures and the Financial Services Authority has recommended them as best practice for UK issuers.

We support additional disclosures that improve investors' understanding of financial statements, as long as they are properly communicated and consistently applied year on year – and are not attempting to be a substitute for the IFRS-based financial statements.

Investors must not be misled. I believe it is the issuers' responsibility to explain these alternative performance measures to investors.

² *Reporting earnings – Trends, analysis and predictions* May 2007 by E&Y Australia and *Has the dust settled yet?* June 2007 by PWC/Ipsos MORI survey.

Conclusion

To conclude - IOSCO places great importance on IFRS, and on consistent application of high quality reporting standards by securities issuers and regulators worldwide.

IOSCO fully supports the IASB in its standard setting role. We have a dedicated group that meets Board representatives regularly and takes part in Board advisory groups.

IOSCO is taking initiatives to promote consistent application of IFRS. Our database will be an increasingly valuable tool for regulators to monitor the application and interpretation of standards worldwide.

Other IOSCO initiatives focus on addressing accounting issues that may, in time, require specific treatment within the context of IFRS.

Securities regulators agree with financial reporting standard setters on the need for one globally recognised set of financial reporting standards.

From the IOSCO perspective, consistent, high quality reporting is essential to maintaining fair, efficient and transparent markets – and as those markets are increasing global, the standards for financial reporting must also be global.