

Michel Prada, 2012 IOSCO conference, Beijing

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Good afternoon, ladies and gentlemen,

It is indeed a great pleasure for me to participate in this IOSCO Conference and I am grateful to IOSCO and the CSRC for their kind invitation and for this opportunity to meet again with old friends.

I am honoured to appear on this panel among such distinguished company. Among the panellists, I should declare that my good friend Masa Kono serves as Chairman the IFRS Foundation Monitoring Board, which makes him my boss. So I must choose my words carefully!

For those of you who don't know me, I joined the club of securities regulators in 1995, as Chairman of the French COB and then AMF. In my capacity of Chairman I chaired the Executive and Technical Committees of IOSCO and I am still a strong supporter of this superb organisation that has played a major role in the building of an international framework for the regulation and supervision of global financial markets. I understand IOSCO has undertaken a major reform of its governance and I congratulate you on this bold decision that will enhance both its visibility and its efficiency.

Actually, this is the third time that I have returned to IOSCO. First, of all, I served between 1995 and 2002, then I returned in 2003 and left in 2008. And now I am here again. To me, IOSCO is a sort of Hotel California for securities regulators. You can check out, but you can never leave!

Today I'm speaking in my capacity of Chairman of the Board of Trustees of the International Financial Reporting Standards Foundation, a position I have held since the beginning of this year as a successor to a well known securities regulator, our good friend Tommaso Padoa Schioppa, who passed away 15 months ago.

During my brief opening remarks, I would like to make three points;

First, that IOSCO is one of the 'founding fathers' of the move towards global standards, and should receive a great deal of the credit for what has been achieved.

Second, that despite a decade of progress, the IFRS project is not yet complete. There remain many challenges ahead of us and there is no room for complacency.

Third, and this point is perhaps the most relevant to this audience, far from outsourcing the whole development of international accounting standards to the IASB, we need you to stay closely involved, to help us overcome these challenges by being active participants throughout the lifecycle of the standard-setting process. We cannot do this alone, on our own.

IOSCO led the move towards global standards

Let's start with the good news. It is an often overlooked fact that the momentum behind global accounting standards began back in May 2000 at the Sydney Annual Conference of IOSCO. At that time, the members of IOSCO endorsed for cross-border listings, the 'core standards' of the IASB's predecessor body, the part-time International Accounting Standards Committee.

That decision triggered a chain-reaction of events that led to the restructuring of the IASC into the Trustees of the IFRS Foundation and the IASB that we know today.

These events took place for good reason. At that time, we were witnessing a substantial transition in capital formation. According to the United Nations, between 1970 and 2000 the world experienced a fifty-fold increase in foreign direct investment. A national approach to financial reporting no longer seemed appropriate when counterparties on either side of a trade were sitting on different sides of the world.

National rules acted as an impediment to the free flow of capital, they increased costs for multinational companies and they created opportunities for regulatory arbitrage.

The answer was, of course, to raise the bar internationally and to develop a single set of high quality and globally-accepted accounting standards. And indeed, a visionary idea became a reality.

In the last 10 years we have gone from almost no economies using international accounting standards, to a world where companies in more than 100 countries, to begin with the European Union members, are required or permitted to use IFRSs. From this year, more than 2/3rds of G20 countries are required to use IFRSs. In the last two years alone we have seen Brazil, Canada, Korea, Mexico and Russia all require the use of IFRSs, in full and without modification. Almost half of Global Fortune 500 companies now report using IFRSs. Therefore, it is clear today that the IFRS Foundation fits the three main criteria that any international standard-setter should meet;

1. Technical credibility, due to the skills of our staff and Board members.
2. Political legitimacy, due to the oversight of the Monitoring Board.
3. And accountability, due to the remarkable transparency, inclusive nature and efficiency of our due process.

Work in progress

While celebrating these achievements, we must also recognise that many challenges remain. Broadly speaking, we must do what we can to ensure that IFRSs become global standards and that the IASB consolidate its role as the global accounting standard-setter.

Let's take this first point. I think we can safely say that IFRSs have now achieved critical mass as international standards, and are here to stay. However, we cannot get the full benefit of those standards without the remaining major economies coming fully on board.

The financial crisis served to increase the urgency of this work. Policymakers around the world have asked for a level playing field in financial reporting.

It is seen as an essential element of the global regulatory reform agenda, evidenced by repeated G20 communiqués that have supported the work of the IASB and called for a rapid transition towards global accounting standards.

China has already substantially reformed its own financial reporting standards and the differences between those standards and IFRSs are now very small. Japan already permits the use of IFRSs for certain domestic companies while India is determining its own IFRS strategy.

Perhaps most eagerly anticipated decision is whether and how the United States will incorporate IFRSs into its own financial reporting regime. The IASB and the FASB have spent 10 years, since the Norwalk agreement laying the groundwork for this decision through a dedicated and fruitful effort of convergence, and I look forward to a positive outcome to the SEC's deliberations on this important topic.

Getting everyone on board with IFRS provides the baseline, but it is not the end of the story. The standards must also be endorsed, implemented and enforced on a consistent basis. If investors have to worry about which dialect of IFRS a jurisdiction has applied then we will be heading back to the old days of national standards.

This brings me on to the future role of the IASB as a global accounting standard-setter.

The Trustees have recently completed a wide-reaching strategy review that considered the mission, governance, standard-setting process and financing of the organisation. At the same time, the IFRS Foundation Monitoring Board, to whom the Trustees report, conducted its own independent review of institutional governance arrangements. Both reports were published jointly in February this year and both reports are required reading for anyone with an interest in the future direction of financial reporting.

The Trustees' strategy review makes a number of excellent recommendations. In my view, one of the most important, and the one that is most relevant to the topics that I have already covered, is the intention to formalise the IASB's relationships with others involved in the financial reporting supply chain – accounting standard-setters, audit and securities regulators and others. The purpose of this is twofold;

The first relates to the IASB's ability to create standards that can be applied around the world and without modification. The IASB cannot do this alone. It must find ways to work in close cooperation with standard-setting bodies around the world, to tap-into the best thinking in financial reporting, but also to make sure that jurisdictional requirements are fully taken into consideration.

The second purpose is to improve consistency in the implementation of those standards. The IASB has been given the responsibility to develop international standards, but it does not have the authority to say how those standards should be endorsed, implemented or enforced.

Neither is it equipped to easily identify the consequences of the standards without the contribution of those entities that implement them in the field.

The flexible nature of the IASB's working relationships with securities regulators and others continues to deliver substantial benefits. However, the strategy review concludes that a closer and more structured dialogue is required if the promise of global accounting standards is to be achieved.

IOSCO call to action

This is where IOSCO comes in. As I said at the beginning of my address, IOSCO can be thought of as being one of the 'founding fathers' of the move towards global accounting standards. Securities regulators and accounting standard-setters are natural allies. We may not always agree, but we both instinctively have investors' interests at heart. We should be sitting on the same side of the table. By the way, it happens that both the Chair of the Trustees and the Chair of the IASB, our good friend Hans Hoogervorst, are very close to this organisation where they worked together a few years ago.

However, I get the impression that the relationship between the IASB and IOSCO is not as well developed as it could be. Maybe this in itself is not a problem – the Trustees and the IASB have very healthy dialogue with regional authorities such as the ESMA and national authorities such as the SEC and indeed the CSRC.

It is also true that IOSCO has two seats on the IFRS Advisory Council and Observer status on the IFRS Interpretations Committee, and frequently submits comment letters in response to our proposals.

But I cannot help but feel that deeper and more continuous international co-ordination is also required, and that is a role that only IOSCO can play.

The Trustees' strategy review provides the framework for a more proactive relationship with IOSCO. There are many areas where enhanced cooperation with IOSCO would be mutually beneficial. For example, working jointly on the post-implementation reviews of major standards, and providing more general feedback to the IASB project teams on how the standards are being implemented around the world.

We need to find the right mechanism for our respective organisations to deepen cooperation, and this is something that Yael Almog, whom many of you know well, will address in the coming months as our recently appointed Executive Director of the IFRS Foundation.

To summarise these opening remarks, we have come a very long way since IOSCO met in Sydney in 2000, to endorse the core standards. Since then, progress has been truly remarkable, but the IFRS project remains work in progress. The people in this room have a clear interest in the success of this project, and I call upon you to re-engage with our work at the IOSCO level to ensure that the G20 goal of global accounting standards can be delivered.