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Plenary 2

Accounting and Auditing – An International Perspective

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Standards Board

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Note: The opinions expressed by Mr. Cope are his own, and do not necessarily reflect the opinions of the Board and staff of the IASB. Official positions of the IASB are reached only after extensive due process and deliberation.

The IASB's mission, in summary, is to develop a global set of high quality, transparent and decision-useful accounting standards. What I'd like to do, very briefly, this morning is to discuss the perceived benefits of such an undertaking, and to report on progress to date towards the goal.

It seems axiomatic that greater transparency in corporate reporting and the attendant reduction in uncertainty on the part of suppliers of capital will lower the cost of that capital. It should also facilitate the flow of capital to where it is needed and where it can be deployed most efficiently. Those benefits are almost impossible to quantify, but if capital is more available, and its cost were to decline by only a few basis points, we must be talking about huge increases in cross-border capital flows and saving many billions of Euros, Dollars, Pounds or Rupees.

Are IFRS meeting that objective? The evidence is slim as yet – academic research is under way, but the research base is slight, given the short life history of any substantial amount of compliance with IFRS. But preliminary results are said to be encouraging.

One interesting study is a survey of European investors undertaken by PwC in February last year, (right after many companies reported annual results under IFRS for the first time). PwC reported that "greater transparency under IFRS was helping remove uncertainty for investors". Suggestions that IFRS are too complex to be understandable by investors are "wide of the mark"; a large majority of investors found IFRS accounts to clear and understandable. IFRS accounts were seen as giving better insights into the risks faced by reporting companies. A majority of the investors report that they were already using IFRS information to make investment decisions – indicating that IFRS are indeed decision-useful.

Let me move on to the convergence process. This has two principal aspects. First there is our work with the US FASB under the so-called Norwalk agreement, and the Memorandum of Understanding between us that has been endorsed by the EC and the SEC – the "road map" to potential elimination of the requirement for US registrants to reconcile their accounts to US GAAP.

The first milestone in this programme is to undertake short-term convergence, defined as determining whether differences of a minor nature can be identified and eliminated. This part of the project is well under way, and several amendments to respective Standards have been made. Examples are the elimination by the IASB of the option to expense interest incurred in asset construction to conform with the US GAAP practice of capitalisation, and the FASB's proposal to provide a fair value option similar to that in IFRS. There are a number of other items that have been completed. The major obstacle to completing that part of the project is reaching convergence on income tax issues, but we believe that all the obstacles can be overcome within the requested time frame.

The other, and more critical part, of the MOU is our joint commitment to make significant progress on a series of major issues – eleven in number. These include Business Combinations, Revenue Recognition, Post-Retirement Benefits, Leases and Intangibles – an impressive list of problems! It is not envisaged than all of these problems can be solved within the time frame of the MOU, (indeed, many may not be solved for quite some time, given the intractable nature of the issues), but the "road map" envisages that progress toward resolution be evident, based on the issuance of agreed Discussion Papers that indicate that the required due process has begun in earnest.

Time doesn't allow me to indicate the milestones that are required to be met to fulfill the MOU, but a visit to our website, iasb.org.uk, will enable you to see how we plan to meet our obligations.

The second aspect of convergence is our work with other standard setters and authorities around the world. Our current research leads us to believe that around 100 countries have adopted or adapted IFRS for use by some companies within their jurisdiction. In some cases, admittedly, the degree of compliance may be questionable, but in a very large proportion of the non-US capital markets of the world, measured by size and volume, IFRS are in use, or contemplated.

As you know, IFRS are already mandatory for listed companies in the European Union, Australia, New Zealand and South Africa. Additionally, there are important developments in other capital markets.

The IASB has an active convergence programme with the Accounting Standards Board of Japan, designed to reduce differences between Japanese GAAP and IFRS.

The Ministry of Finance of China has issued a suite of standards that are designed so that there will be no difference between the accounts of Chinese entities using those standards and those using IFRS. We have proposed an amendment to one of our Standards that causes problems in a Chinese context.

Canada has decided that, rather then converging with USGAAP, it will move to adopting IFRS, with a target date of full integration in 2011.

Last month, the government of Korea announced that Korean standards will be replaced by IFRS "word-for-word" for all listed companies – voluntary in 2009, mandatory in 2011.

Here in India, as I understand it, the government has indicated an intention to converge with IFRS.

This is an impressive list of capital markets, and indicates, in my view, that IFRS has reached, or possibly passed, a point of critical mass to provide momentum for worldwide convergence. There are many challenges ahead on the road to achievement of a single set of high quality global standards, but visible progress is being made, and the outlook is promising.