Speech from Olivier Guersent

Conference EFRAG/Trustees

"An EU perspective on the move towards global accounting standards"

Brussels, 11 October 2012

Ladies and gentlemen,

First of all, I would like to thank EFRAG, the IFRS Foundation and their chairmen, Pedro SOLBES and Michel PRADA for this invitation.

And let me add the personal greeting from Commissioner Barnier, who had to go to Luxembourg today for the Competitiveness Council.

One year ago, the celebration of EFRAG's 10th anniversary was an opportunity to reflect about the past milestones and achievements. We were pleased to hear many stakeholders recognising EFRAG as one of the major player in the accounting debate worldwide. One year later, this assessment remains valid and **EFRAG deserves praise for its key contribution to the debate on financial reporting**.

EFRAG fulfils the important task of helping to ensure that European views on the development of financial reporting are properly and clearly articulated in the international standard setting process. **The objective is to influence the international debate from an EU perspective** to ensure that final IFRS are appropriate for the 9,000 companies which report under IFRS in the EU today and for the users of their accounts in the EU.

To achieve that objective, EFRAG's work is divided into two main workstreams:

1) EFRAG acts as a focal point for the EU's pro-active input to the IASB, which involves both conceptual work feeding into the IASB's agenda-setting process and technical input during the standard-setting process.
2) EFRAG prepares endorsement advice to the European Commission.

Both missions are essential for the European Commission. That's why we decided to enhance EFRAG's resources by co-financing it from 2010. We are currently working to ensure the renewal of the financing programme for the next "financial perspective" (2014-2020).

But today's event is not only about EFRAG: this is a <u>joint</u> event between the Trustees and EFRAG. And this is exactly how we see the standard setting process: it is all about collaboration, communication and joint efforts. **We all share the same objective: high quality accounting standards, globally applied**.

In the EU, as requested by the G20, we support the objective of one single set of high quality accounting standards. This will ensure a level playing field for all companies worldwide, and allow comparability and transparency of the financial information. For that reason, **the EU aim to adopt all IFRS issued by the IASB**. Our endorsement process allows us to reject or carve out a standard, but not to modify it. However, our objective is clear: **we want the final standards issued by the IASB to be acceptable to our**

constituents and we want Member States to vote on their adoption.

But **to achieve this, we need to express our views early in the standard setting process**, and we need to be listened to by the IASB. We know that the IASB will have to make choices between different conflicting views from around the world. But we want to make sure that we had the chance to express clearly our position. The procedures and governance of the IASB are key in this regard. We welcome the recent improvements and we encourage further developments.

The best illustration of EFRAG effectiveness in transmitting the voice of Europe is the number of standards endorsed: **since 2002** [when the EU took the (bold) decision to move to IFRS], based on EFRAG's endorsement advice, **the EU has adopted more than 60 regulations transforming IFRS or IFRIC interpretations into EU law**.

It is important to stress this because, sometimes, the impression is given that the EU is not in line with IFRS. However, **except for a small carve-out in IAS 39, which is used by less than 30 banks, and IFRS 9, which is a specific case given its link with financial stability, ALL standards and interpretations** were acceptable to Member States and we have endorsed them.

However, **I don't want to paint too rosy a picture**.

2011 and 2012 were supposed to be key years for international accounting standards.

- Both international and US accounting frameworks would have been aligned on a number of issues: financial instruments, insurance, revenue recognition and leasing contracts.

- Major jurisdictions (US, Japan) were expected to "join the club" of IFRS adopters.

- Important reviews were launched: Trustees strategy review, MB governance review, EFRAG limited governance review.

Faced with these high expectations, **where are we today? Has 2011 been a key year or rather a step backward?**

I- First, are IFRS really global?

In the US, the SEC has announced that it needed a few more months but has not yet put the decision on its agenda. We understand the challenges and burden for US preparers that may result from a switch towards IFRS, but **we strongly regret the absence of a more positive and concrete signal from the side of the US**. The EU's patience has its limits and the frustration is growing.

The lack of a clear vision from the US creates uncertainty and hampers the IFRS from becoming a truly global accounting language. Japan, for instance, seems to be holding its decision back.

It is important for stakeholders that this situation does not affect the development of high quality global standards by the IASB.

While the US and Japan are dragging their feet, **other jurisdictions (China, India, Brasil, Russia, Korea) get more and more involved**.

How can we justify the representation of jurisdictions not applying IFRS in the IASB governance framework and to accept their strong influence in the accounting standard setting without knowing if they will ever adopt these rules?

This is why **we believe the monitoring board should first be composed exclusively of countries using IFRS on their domestic market and second be expanded to major emerging economies applying IFRS**.

II- Second, where are we on convergence?

Convergence is supposed to help jurisdictions to make the decision to adopt IFRS. A lot of efforts and energy has already been put into the process. However, the calendar for the main pending projects has slipped.

And yet companies and users are waiting.

The financial instruments project is the most critical. We need a robust standard, answering the call from the G20 (more provisions, and earlier).

We are worried to hear that the last joint meeting between the IASB and the FASB in July on **impairment of loan losses** did not go very well. We hear that differences in the characteristics of the loans (average maturities, types, …) lead to different views. What seems to be the preferred option on one side of the Atlantic does not set seem to be economically realistic for the other side.

However, there is a mandate from the G20 to deliver a common model I understand that Hans (Hoogervorst) delivered a progress report to the FSB yesterday. I think **it is time to ask the G20 and ourselves one question: what does convergence really mean?**

There is a trade-off between issuing within a reasonable timeframe a standard which is operational (what is asked by users) and full convergence.

Concretely, could convergence still be achieved in the absence of two totally identical standards? Aiming at similar objective (more provisions, earlier), going into the same direction, presenting models with a number of similarities (expected loss model), but without full agreement on all details? Would it be enough to be called "convergence"?

It is certainly worth raising this question, mainly because **convergence should not be at the expense of a timely solution**.. 4 years after the start of the financial crisis, it is time to conclude and fix rules on provisioning. The prudential rules have been strengthened and harmonised. Let's finalise the accounting framework on which regulatory standards are based.

On both issues – globalisation (or de-globalisation) of IFRS and convergence, we see clearly 2013 as the “year of truth”.

At EU level, some stakeholders have the impression that we are going backward and raise one essential question: **is it still beneficial for the EU to stay within the IFRS process, and if yes, how?** We think that this deserves a high level political debate, which we plan to have at ECOFIN level this autumn.

I believe **the answer to the first question should be yes**. The EC decided in early 2000 to abandon further harmonisation on its own and to require its listed companies to use IFRS for their consolidated accounts.

Our objective was the production of comparable financial reporting and the alignment of international best practice. Nobody would question that comparable, transparent and reliable financial information is fundamental for efficient and integrated capital markets.

IFRS were chosen as we were convinced that they would facilitate trade within the EU as well as cross border transactions. Those objectives remain valid today. And there is no realistic alternative that would meet those objectives ("EFRS"? a European Accounting Standard Board: going that route would be very costly and would create an additional layer between national and international standards, which is contradictory to the globalisation objective asked for by the G20).

Acknowledging that we want to stay within the system, and that we do not want to replace or undermine IFRS, **we have to make every efforts to have them accepted by our EU stakeholders. This implies answering their concern**: does the IASB standard-setting process sufficiently take into account the EU's interests? This has led to much debate about the IASB's governance. But the way the IASB listens and consults is only one aspect of the issue.

As important is the way EU expresses and conveys its interests to the IASB. Even if the IASB's governance and due process are significantly improved, international accounting standards will only meet the EU's interests if we can muster the intellectual firepower to ensure that our views are presented in a coherent, convincing and timely manner. Despite the best efforts of EFRAG, the EU currently struggles to achieve this.

As always in the EU construction, **what we need to achieve is to speak with one voice!**

One message, conveyed by one messenger, during the development of a standard: **EFRAG**.

But a platform to ensure that experience arising from the application and enforcement of IFRS feeds back to the IASB's standard-setting process is also a must. And the messenger, when it comes to enforcement issues, should be **ESMA**.

In this regard **we welcome the project launched by EFRAG to review its governance** and the way it interacts with different stakeholders – National Standards Setters, preparers, users, auditors, academics, regulators. The decision taken this summer to widen the scope is wise. It will be critical to design the governance of EFRAG to ensure that it is and seen to be transparent, impartial and accountable. It is a difficult project, but the strengthening of the EU influence depends on it.

In particular, **one key issue will be how to combine the technical and political assessments of one standard**. Views diverge on this. Continental European tradition considers accounting standard-setting as a governmental activity, whereas in the Anglo-Saxon tradition the accounting profession has played a dominant role. We do not question the importance of the independence of the IASB (and EFRAG), but whether we like it or not, politics is not absent from standard setting. The crisis has illustrated the importance of a robust and legitimated independent international accounting standard setting process, which is responsive to the public interest.

EFRAG was initially meant to provide technical support to the Commission in the assessment of the standards. Today EFRAG has become a body which is globally recognized for its technical expertise, but the expectations of European constituents have also evolved.

Time has maybe come to beef up EFRAG to integrate all public policy consideration in the endorsement process.

In this fast-evolving context, the most important point is that we keep working with the same objective in mind, which is to develop the best accounting standards, serving the needs of all users of accounts. You, IASB, as the most important standard setter in the world, EFRAG, as the voice of the EU, and the European Commission, representing a key jurisdiction applying those standards.

Thank you.