

TRANSCRIPT

FEE Seminar IFRS Convergence and Consistency

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Panel Discussion: Convergence

[NOT YET EDITED BY MR. HANS VAN DAMME]

- **How to ensure success?**
- **What are the costs and benefits of convergence?**
- **Mutual recognition and equivalence - How this is underpinned by a robust convergence process**
- **Securing widespread understanding and support**

Panel Chairman: Hans van Damme, FEE Vice-President, Chairman, FEE Financial Reporting Policy Group

Panel:

Sir David Tweedie

IASB, Chairman

Michael Crooch

FASB, Board Member

Jonathan Symonds

AstraZeneca, Chief Financial Officer

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Hans van Damme: Ladies and gentlemen, let's proceed with the discussions after the keynote addresses we have now received from on the one side European Commission, on the other side the SEC. It's now to dig into the issue of convergence a little bit deeper. Europe faces this issue and there are a number of particular questions and there have been already, in some respects, in the earlier mentions of people, how much level of convergence is needed to come to mutual recognition and eliminate the reconciliation requirements. And the steps have been mentioned. The road map on the one side, detailed steps as laid out, and there are more views expressed as well.

On the one side we have heard Commissioner McCreevy saying that it should be a two-way street so therefore not only one approach, not to destabilise the European IFRS implementation and also not to test the theoretical boundaries. Well, that's quite a challenge. We've also heard the SEC Commissioner Atkins speaking on the same subject and saying that he is confident that reconciliation will in some time disappear when experience has been gained with IFRS. At the same time, true convergence and at 100% level might be illusionary, and they do have positive effects and we can have discussions about the principles against the rule based approach, we can discuss about the level of judgement that may be required and in preparation for this meeting we have requested the participants in the panel to address, or at least to review a number of discussion items, one being what does convergence mean and how should it be ensured? The second being should convergence focus on making the best of existing standards and use the stable platform or should they be establishing new standards? What is, thirdly, sufficient, robust process acceptable to all stakeholders, and we are looking at really all stakeholders and how should we ensure widespread understanding of the convergence process and get support for it? Well, these issues have resulted in presentations of four panellists who are going to address elements of it because it's impossible to

address all of the subjects as I have mentioned before and I would like to give the stand to the first speaker, Sir David Tweedie. I don't think he really needs an introduction, looking at his CV, we can see that his qualification as a chartered accountant, he had been working all of his career in accounting or, as he has redefined it, financial reporting, so, David, up to you.

Sir David Tweedie, IASB, Chairman

I've got one word, really, to talk about today and that is convergence and what it actually means. Both the European Commission and the SEC, as we've just heard, have been strong supporters of the IASB, and, indeed, of the convergence process. As everyone knows, the European Union provided leadership in the adoption of IFRS rather than developing European standards which, was the alternative.

This decision sent a very important signal to many other countries and now there's almost 100 countries who are adopting, using or converging to international standards. Of the eight standard setters with whom our original constitution required us to maintain a liaison partnership, the three EU standard setters no longer set standards for listed company accounts. Australia, New Zealand have decided to adopt IFRS. We have a convergence programme with Japan, and Canada has only recently announced its intention to adopt IFRS and not US GAAP. Two weeks ago, China announced that it was going to do the same and in Latin America, Asia, IFRS is starting to become the norm. This is a critical juncture because if we slip, then the world will split into two camps; US GAAP and IFRS, and that, of course, raises the question of the United States. As Ethiopia's remarks indicate, support for international standards from the SEC and the FASB actually have pre-dated the road map and their support has been steadfast. Both the SEC and the FASB were proponents of the creation of the International Accounting Standards Board.

While the subject of my topic is convergence and the IASB/FASB work programme, it's worth providing some context before discussing where we're going. In recent months coverage of the IASB has focused on disagreements with particular standards, the short term costs of implementing the standards for the first time, and that's quite understandable. Companies in Europe, the Asia Pacific Region and Latin America and Africa are adjusting to these standards for the same time. In the UK, for example, where I was chairman of the UK Standards Board, the suite of standards that we had, like every other country, has been thrown aside and in comes a new set. That hasn't really been done before. When we reformed UK standards, we introduced one or two new standards a year. But this is different. This is something very, very different.

I think sometimes in the discussion of the problems of implementing IFRS, we forget the benefits that can and will be achieved from the adoption of this set of standards. The simple fact is in the modern global economy, markets are integrating, the competition for scarce capital is growing, financial reporting is a key part of the stability of this system. It opens up markets to outsiders. The benefits of a single set of standards are clear. The IASB was really born out of the Asian financial crisis. Companies in the Far East whose accounts looked all right, suddenly went bust. A lot of their finance was short term. It was pulled out. Interest rates rocketed. Investment stopped. Unemployment rose. Growth stopped. They knew, to get the confidence back, they had to replace these standards and do it quickly. And that's when the move started to come for international standards.

So when we're talking about convergence projects, we're not talking about archane bookkeeping methods, we're actually talking macro economics. We're talking about growth, employment, investment and how we get there.

Part of the issue was for multinationals when they have companies scattered throughout the world, the costs of bringing back all the different sets of accounts to US GAAP or whatever, was very expensive. A complete waste of resource. But internationally we've moved beyond that. What we're talking about now is an international language of accounting enabling investors to compare financial results of companies operating throughout the world. It provides more opportunity for investment and diversification, it removes a major investment risk. You don't have to be concerned that you know all the nuances of individual countries' accounting standards. Quite often, if you're unsure, you just go elsewhere and that's why we've got countries like China giving up Chinese accounting standards because the problems people were having understanding exactly what the accounts meant.

And this, of course, is particularly relevant to the time we're all talking about pensions and the need to invest; people want to make sure they understand what they're investing in. For auditors a single set of standards enables firms to standardise training, better assures the quality of their work, it permits international capital to flow more freely, enabling the firms and their clients to develop consistent global practice to accounting problems and thus enhance consistency. For regulators it's so much easier dealing with one set of standards than umpteen from different countries.

And let's not forget it was these benefits that informed the EU finance ministers' session in Lisbon in the year 2000, a decision that paved the way for the adoption of international standards in the European Union this year.

Let's not forget there's 25 countries in the Union, there would have been 26 different ways of accounting unless this decision had been made. The UK and Ireland did it the same way. Most countries had their own methods, and some allowed also US GAAP or international standards. You can't have a single market with 26 different ways of accounting.

That decision dominated our work programme initially. We changed our priorities and timetable for what would have been to get you ready for 2005. It's not been easy. This was something that we were all experimenting with as we went on.

We have to remember we weren't given a clean sheet of paper. We inherited 34 standards, 14 of which had been heavily criticised by IOSCO, the international securities regulators, and that included the standard on financial instruments. People often think we invented IAS 39. We did not. We inherited it. It took the old IASC 12 years to get there. There is no way we could change that in two years to get ready for 2005.

We were confronted, having these 14 standards, with either gradually changing them, and that meant you had to change twice because they would not be acceptable to IOSCO and certainly the SEC until we had changed them, or having a quick blitz to try and get ready for 2005. And we chose the latter in trying to get these done.

During these first few years, we were also presented with an opportunity. As I mentioned, the SEC and FASB have always been consistent supporters of international standards. However, following the collapse of Enron and other financial scandals, the willingness to accept international solutions grew and it was this changing mood that led FASB and the IASB to capture what we thought was a small window of opportunity and that was the Norwalk agreement we signed in the year 2002. I believe we'd have lost momentum for convergence with the United States who have the largest capital market, if we hadn't acted when we did. Therefore, our initial programme was aimed firstly at improving the inherited set of standards and, secondly, at initiating this convergence progress for the US, essential for making IFRS truly global standards. The result was a stable platform completed in March 2004.

We recognized that this work entailed an unprecedented amount of change. Seventeen of the 34 standards were altered. We issued six new ones; one telling you what to do the first time that you introduced international standards, two insurance company practices and three happening again in the future. We couldn't take it and neither could you. Nonetheless there are sceptics, some observe that a stable platform has wobbled and the IASB has been prone to change standards since March 2004. Our changes have been aimed at developing concerns that people have expressed to us and asked us if we can deal with these implementation issues.

I know it's difficult to remember some of these things. Well, I want you to remember when you complain about the stable platform wobbling, that a lot of this is done at your request. Changes to IAS 39, the amendment to the pension standard, the amendments to capital disclosures, and so on, all mainly at requests and, of course, IFRS 7 which withdrew IAS 30.

We understand the need for stability and the need to press ahead for convergence. The roadmap agreed with the SEC and the European Commission gave us clear direction. The important issue is that, the SEC was willing to consider, and this is the key point, mutual recognition of IFRS for the purposes of registering in the United States, provided a robust convergence progress was in place and would continue following the removal of the reconciliation requirement. Eventually these standards will get closer and closer together. So that's now our major objective, to bring this into being.

From a standard setting point, the SEC-EC road map was a revelation. Previously what we'd been doing is looking at the reconciliations, looking at the differences, seeing who had the better answer and adopting it. We reckon that was going to take us another ten years. We don't have to concentrate on a series of endless changes any more the very changes that make the stable platform unstable.

What we're going to do is something rather different. We're going to run on two distinct tracks. Firstly, by 2008, the goal is to reach a conclusion whether the major difference in a following few focused areas should be eliminated through short-term adjustments. We have nine to do, FASB has six to do, and two of them are joint. Borrowing costs, we have an option. We're likely to remove the expensing option when you build your own asset. The key thing is, though, the SEC are saying you don't have to adopt the US capitalisation rules; keep your own. Change the major principle if that's what you're going to do. Joint ventures; getting rid of proportional consolidation. Government grants, we have two standards, one buried in the agriculture standard which is more modern and make that the main standard. Segment reporting. It's quite clear industry and also the analysts prefer the US approach which is how does management run its business? We're likely to adopt that. And jointly we're going to look at impairment and income taxes.

The idea is, though, we're changing the big principles not every little difference. And second and more substantially, we have to make significant progress on 11 areas identified by both Boards where current accounting practices of both the US and ourselves are outdated and candidates for improvement. May I emphasise this does not mean a completed standard by 2008? In fact, out of that 11 we anticipate only two would be standards. The other nine will either only be agenda decisions or discussion papers right at the beginning of our process. The majority of the work we've to do is after 2008. After, hopefully, the reconciliation has been removed. And of those projects we will finish before 2008 we have to assess what effective dates we put in there so they don't all have to come crashing in at once. We can actually scatter them. You can adopt earlier if you wish, but on the other hand, we can push them back and leave them there. We hope, before too long, to publish these priorities in a public document. Most of the 11 are already on our work programme, eight of them. We've discussed these with our Advisory Council, and the Trustees, as required. The key point that we have to make is as Ethiopis said, we will not have identical statements when this reconciliation goes. We'll be relatively closely aligned, with generally comparable trends, but the key thing is the cooperative will keep going to get rid of the differences. The rest of the world is watching this to decide whether it's worthwhile adopting IFRS or should they hold off and then decide which of two sets of standards they jump to. This is very critical to this whole idea of having one set of global standards.

A commitment does have consequences. We can't keep adding things to the agenda, or we'll delay getting rid of this reconciliation requirement. That doesn't mean to say we're going to neglect repairs and maintenance. We've our interpretation's committee staff will be up to six at the beginning of next year from two and a half at the beginning of this year. The IFRS Interpretations Committee has undertaken a review of its operations to improve its efficiency and with FASB we'll scrutinise the need for interpretations and additional improvements because of our desire to maintain a principle-based approach.

There's going to be challenges, and that's one of the main ones; principles versus rules. Can we write 80% standards that deal with most of the issue and then say you're on your own for the other 20%? See the thrust of the standard and take it through. Principle based standards are not soft options. We just start off by giving you a core principle that you have to meet or you fail to address the standard. For example leasing, good news is standards round the world are harmonised. Bad news is they're actually hopeless. One of my great ambitions is to fly in an aircraft before I die that's actually on the airline's balance sheet. None of them are, or hardly any are, and the reason is the standard has a nice bright line for capitalisation. To capitalise the present value of payments you make, have got to be 90% of the value of the asset when you start. Airlines don't lease aircraft for their whole life, they lease them for a period but can they get out of

it? Can you get out of the contract? Probably not. Can you measure it reliably? It's in the contract. That meets our definition of a liability, an obligation from which you cannot escape which can be measured reliably. So why isn't it on the balance sheet and on the other side the right to the asset obtained? And that could be the standard, principle. State, the liability you've incurred by signing the lease contract and the rights to the asset of paying thereby, now how much more do you want? That's the standard. It's three inches thick in the United States and it's still not on the balance sheet. So if we do that we have to scope the standards carefully, no exceptions, few bright lines, and then the question is how much guidance do you want? You probably need to know about residual guarantees, renewal options, and so on but can we minimise it? It's going to mean judgement. I'm quite happy with that. If you get 94 and I get 96, that's fine. If you get 61 we've probably got the standard wrong and we have to come back to it. That's going to put pressure on the auditors, it's going to put pressure on the CFOs, and put pressure on you asking for answers. We don't give questions and answers, you've noticed, to our standards. Only one does that IAS 39, 200 of them, half of them are blindingly obvious and the other half are micro accounting. We don't want that again.

Those that tell me they understand IAS 39, clearly haven't read it properly. That's one of the problems. We don't want to go down that road once more. So how many interpretations do you want? Every one's a rule. The US traditionally does 20 a year, the UK does three. I didn't think UK accounting standards were that bad. So when you keep asking us for interpretations, they're rules, every single one of them. It may be that the standard is ambiguous, let's change the standard then and clarify it. And then we come down to the question of enforcement and that was the issue, one of the questions we have to discuss with the regulators. If there's a principle and there's two ways of getting to the principle with slightly different answers, we have to accept them both because if the regulators say it's got to be Method B, we have to make that the rule and here we go again, we're down to rule-based standards.

We're going to have to look at the views but we would like to try and have principle based standards but it'll partly depend on you. Can you operate them? The profession ultimately will get the standards it deserves but we have to engage with the firms, the regulators, and, of course, FASB, in how we write them.

There are great grounds for optimism in what's happening. The US has been very supportive and we have a real opportunity now to get rid of the reconciliation and create an infrastructure appropriate for a modern economy. We can't rest on our laurels, we have to change some of the standards because that's what convergence involves, but the US are also changing. We have to move forward and think of the goal that we're aiming at. A common financial infrastructure world-wide.

This, ladies and gentlemen, is the best chance we have in a generation of succeeding and I hope you help us get there.

Hans van Damme: Thank you, Sir David. In the interests of time, we will not provide the opportunity of asking questions immediately after each session but we will do it in the question and answer session at the end. So we will now proceed with Michael Crooch who will highlight the other side of the equation coming from the other side and as the gentlemen are sitting next to each other, apparently they can work quite well together. Michael Crooch is now working in his fifth year at the FASB of an eight-year term so he has a few years to go. He not only has worked on that side of the ocean but he has also been working on the IASB, i.e. the previous set of IASB so he has gained experience also on the international front.

Michael Crooch, FASB, Board Member

It's always a pleasure to come to Europe and make a speech. Maybe not because of the reasons that you think about, but in the United States people think I have an accent. I keep telling them that I've lost it. They all grin when I say that. It's always a pleasure, however, to come and make a speech at a forum where in my estimation, everybody in the room has an accent.

Following David is always a tough job. If you've ever had to make a speech after David, you know that it's something that is very, very difficult. He's articulate, he's funny, he gets the audience charged up and he also talks about all the topics that we were supposed to talk about together in his speech. It makes it increasingly difficult to make these speeches. He and I have the pleasure of being working together for a long time. We first worked together on the IASC, we had lots of arguments over accounting rules and standards. I called him a hard headed Scot, he called me an uninformed, unenlightened, OP with a funny accent. However, having worked with him for a very long time, I have come to appreciate his skills and I think he's the right guy in the right place at the right time.

During my time at the IASC, I became convinced that the benefits of convergence, at that time we called it harmonisation, were many. David often talks about those benefits including lower cost to companies in multiple locations, common language that allows investors to understand the financial statements better. Better and more efficient auditing, allowing the auditing firms to be able to streamline their processes so that in fact they can do a better job, and some others.

Often overlooked is the educational aspect of IFRS. Right now, often, I think, in countries, they have to teach two sets of accounting guidance, local GAAP and IFRS. Hopefully, the adoption of IFRS will cause the second one to go away. We all talk about the fact that there are benefits to this but it's kind of hard to say for sure that these benefits will be derived. I, in fact, believe that I can tell you a circumstance where it has been proven that higher quality financial statements in fact does a better job.

I remember going to a programme in the late 1990s, and on the day was an individual who was a chief accounting officer, financial officer, for a very large European manufacturing company. They had adopted US GAAP primarily because they wanted access to the US capital market and they adopted this in the way I think is the proper way; that is, they pushed the US GAAP down through their organisation. They didn't just do a reconciliation at the top level. They pushed that information source all the way down through their organisation world wide. What this individual said was that to their surprise, the use of higher quality accounting information, US GAAP, as bad as you think it is, and using US GAAP, in fact allowed them to make significantly better management decisions because of the higher quality of information that they received. Since I heard that comment, it made me more emboldened to what we have to do is get high quality financial statements based upon high quality accounting standards.

Let me take a detour for a real quick moment. A couple of projects that we are working on with the IASB that are going to be important to you. One of them is the framework project. I happen to be the Board member that is pushing this through that FASB, and the reason we're doing this is because we think we need to have a common framework upon which to make our standards. Now, the US framework is abysmal, it's inconsistent, it's contradictory, it's incomplete, it has a lot of problems. Part of the reason is that it was in fact written by committees. The committees were known as the FASB Board but what happened was in 1973 when the Board was required to be in place, one of the first things they were supposed to do was come up with a framework. They began doing that right away. It took them 20 years. In that 20 years, the membership of the FASB changed. Each time it changed, somebody had a different idea about what the framework ought to say and as a result we've had a document that was not good.

I can tell you that in the 21 years that I was a technical partner in Arthur Anderson, I never looked at the US conceptual framework to find the answer to any question. The reason was I could get the answer I wanted by looking at standards and I could support my answer.

We're going to make this thing happen. It's more important obviously at the IASB because the rules, as I understand them, are if you can't find something in the standards and you have to create an answer, you have to look at an answer that was consistent with the framework. As a result, we're going to get that done.

Those of you that ever have to work at all with US GAAP, one other quite small note. We have a project going on in the United States that we call our Codification Project and what we're going to do is take all of the US GAAP and put it in one place. One of the fears I always had as a technical partner in the United States was even if you looked really hard and you were very, very, very diligent, you were always in a position where you might not find everything that's in US GAAP. What we're going to do here is, and we've got a group of about 17 people working independently of our normal standard setting process, putting together all the sources of US GAAP in one place, in a logical place. It's going to be a web based, word searchable, and I'm hoping the Trustees will say that it is free to your use and we're going to have the ability to say that in this particular case if it's not in that classification, it's not US GAAP.

Let me talk about convergence. It's absolutely clear to me that the FASB is dedicated to the convergence FASB GAAP and IASB GAAP, absolutely no doubt in my mind. That said this is not an easy process. First, we have 21 people, highly qualified people, trying to set these standards and believe it or not we disagree as to what the answers are sometimes. Some of the disagreements are because we disagree as to what the principle is. Believe it or not, I believe that US GAAP is, in fact, principle based. Let me give you my example. When we started, I wasn't there at the time, but when we started to do derivative accounting, the principle was isolate the derivatives based upon a definition, isolate it, fair value that derivative, and have the fair value change recorded in income. Very simple, find the derivative, measure it, put it into income as the value changes. What happened, however, was the following. Surely you don't mean my derivative has to be measured separately and reported as income, surely you don't expect me to divide all of those things out over here that I do in the normal course, I mean, that would mean I'd have to have all of those measurements going on. You see my drift. Continuously, people were coming and asking questions on how these things were to be applied. Perhaps, foolishly, we answered those questions and now it's the poster child for why US GAAP is, in fact, not principle based but it is rules based; 600 pages of advice on how to do derivatives is obviously not, I'm sure, your idea of what accounting standards ought to be like.

The second problem is that there's always opposition to change. If you don't clearly see the need for the change, the word we give you is don't change. Why do you need to do this? Everything is working. In addition, one of the things that people don't support is adding volatility into the reported results. The key words that I'm hearing now in the United States is that new standard will create 'unnecessary volatility', I don't know how to define when volatility is necessary and when it is not. My response is if volatility is in the economic transaction, then I support disclosing it. It doesn't happen all the time.

The second road block to the road map is the legal and regulatory regime in the United States. Obviously the US has more litigation. There's more litigators in the United States and more litigation in the United States. What that does is that puts a premium on being right. Unfortunately, in the United States today there is a tendency to say that anything that bad happens to you, it wasn't your fault, somebody else ought to pay. And in that environment, there's a lot of litigation. Sarbanes-Oxley and PCAOB put a lot of pressure on the people that have to create financial statements. The CEO has to sign those financial statements. The CEO is going to ask its people, are these financial statements prepared properly and in accordance with GAAP? How would you, if you were asked that question, like to be able to answer? You want to answer yes. What is your level of confidence? Well, what we're finding is that the level of confidence is often based upon a sentence in a book some place that I can point to and says that this in fact is the answer that is appropriate. Is that the way it ought to be? No, sometimes, and often, it's not the way it is, but you find that there is a tendency in the United States to look for detail because of the environment. That environmental difference is something that we have to work through in the United States.

We at the FASB get a tremendous requests for a lot of detail. I decided that before I left I picked up our quarterly report of what's on our agenda, and we've started putting down there things that we felt FASB staff positions. I ask myself, I wonder how many of them we're working on, 17. Now, the test I had to do was I had to read and decide whether I knew what all of them actually addressed. I passed the test, but barely. Therefore, we have an awful lot of impediments to making this work. That doesn't mean that we won't make it work because I believe we will make it work.

And finally I have a confession to you. I have a confession that I never thought that the SEC would ever take the position that they're taking as it relates to the road map. I couldn't see any upside on the part of the SEC. US companies would often, I would have thought, would feel that they were at a disadvantage if, in fact, they thought that IFRS had a better answer or an answer that gave a better impression. I thought that they would ask for the ability to switch between IFRS and US GAAP. I guess I have to confess, however, that I hadn't thought it all the way through. The SEC has done a better job of that than I have because what they have come up with is a methodology that allows the two sets of accounting standards to be used in the United States at the same time not fully converged in the beginning and allowed the benefits of entering to the US capital market to IFRS based financial statements. I think it's something that is very, very, very important, something that is important to realise that they are taking a step that's going to be very advantageous to all of us.

Hans van Damme: After having now seen the two sides of the equation, firstly IASB, secondly the FASB, it's now up to a preparer to give us some insight into the position from that point of view. We are pleased to have Jon Symonds here. Jon has seen two sides of the equation because he has been working as an auditor before and is now working as a CFO, so he is one of those people who might face the challenges Michael Crooch was speaking of. We have seen a lot of Jon's comments over the past time in past times in the press due to his position as chairman of the Group of 100, he is just stepping down.

Jonathan Symonds, AstraZeneca, Chief Financial Officer

I'm sure you're surprised that you can see me standing above this lectern with the weight on my shoulders with all these new accounting standards that we have to turn into information, billions of transactions occurring around the globe in over a hundred markets to turn them into a single comprehensible understandable and communicative set of results. So I do want to take this morning a view from the preparers. And it's probably worth saying, and the points have been made many times this morning, is that there is very strong support for a single comprehensive globally accepted set of accounting standards. I always try and put myself in the position of our CFO in Malaysia, perhaps if I don't do this job well enough, that could be my ambition one day. He not only has to grapple with his local GAAP, we ask him to report on the UK accounting standards. We also ask him to report any differences between UK accounting standards and US GAAP and for good measure, because we're also listed on the Swedish Stock Exchange, the Swedish Stock Exchange has also asked us to confirm that our UK accounting is materially consistent with International Accounting Standards.

Quite clearly, he cannot do this job. It is an expectation too far. So when we talk about the cost and complexity of translating to a single set of accounting standards, the quality implications are very substantial and certainly in my own company, AstraZeneca, we have taken the implementation of IFRS very seriously and as a major opportunity to not just re-translate our results but to turn them into something that is of a higher quality than that which proceeded. But I think as a second point on the slide also points out that it's not at any cost. I think there is an even stronger level of support from the business community for clear, principle based accounting standards that facilitate communication to shareholders and other stakeholders. David mentioned this point and I'm passionate about this one too, is that accounting is a language. It's not a theoretical ambition to find the perfect set of accounting standards if, indeed, they ever will exist. It's about responsibility and accountability of businesses to their owners and to potential investors and I certainly accept the need for clarity, consistency and so on. I also take very seriously my responsibility to communicate that in a way that my shareholders understand and that they can judge the performance of the company as an investment but also as a comparative investment.

I think one of the benefits of perhaps not as well appreciated when we started this journey, is the importance of being better prepared. I think the business community over the last two years has improved its ability to coordinate itself and therefore provide the EU Commission and others with a much clearer picture of the views of the preparers.

The 100 group in the UK represents the 100 largest companies in the UK. It has a long record of testing the views of that community and providing that and we did so when David was Chairman of the Accounting Standards Board in a way that aggregated the views of 100 companies. A much better way of communicating than 100 individuals. It was abundantly clear that this mechanism no longer worked than when we were dealing with an international concept. So we moved the level of our representation under the auspices of the European Round Table and under the leadership of Alain Joly who will speak to you later, to try and coordinate the views of preparers across Europe and I think we've successfully done that in the last 18 months and have regular sessions with the IASB, not just as individual companies but as a representative body of a significant part of the European market capitalisation. That also has not been enough and we are now forming a Transatlantic CFO grouping that tries to provide the views from both sides of the Atlantic. I think the big surprise to me and probably to others has been how quickly we've been able to create a common agenda, very rapidly have we been able to understand and conclude what are the principle issues that we need to be dealing with, so when we now speak, we speak with a lot more clarity and a lot more credibility.

It also becomes abundantly clear that we are probably now the only community that does that. The users are fragmented; a single view from one of the big four is a major achievement and the accounting profession also now needs to play its part. What we have to avoid is creating a vacuum whereby accounting standards are developed by academic and theoretical accountants that make theory extraordinarily difficult to interpret in implementing practice.

So I think where we are today, I think in terms of the first wave, I think we are now moving largely down a path to resolve practical difficulties. I think it's been mentioned on many occasions already this morning that there's no history, there's no body to establish GAAP behind IFRS that people can refer to, to get themselves out of difficult questions; we've got potentially two sets of GAAP running in the EU. There is inconsistent application between companies, between industries. And there are different opinions amongst the big four.

We have to resolve these as much by judgement and providing our own conclusions than simply passing everything up to IFRIC to resolve. That is not a practical way forward and I think we have to take greater responsibility to make sure that we are prepared to take our own judgements ultimately potentially on the chin and I think there is an important message here for the SEC who hitherto have interpreted US GAAP from a legalistic line based word by word interpretation but we must avoid getting to that position at least in the early stages of IFRS because we've got to allow the standards to breathe, to develop and to become better without, as David is saying, adding more and more appendices to something which ought to be big enough to conclude for ourselves.

I think the second message coming from preparers is just how rapidly we have moved from a debate on convergence to a debate around some real conceptual issues and I've noted three here. David has talked about the forward agenda and I'm sure there will be many on there. Preparers are not looking for theoretical debate about the Conceptual Framework but we do need to understand better where some of the parameters lie around some of the guidance in business combinations, performance reporting and, perhaps most fundamentally, what is the ultimate direction of fair values. The wonderful theoretical concept but not everything has observable markets, not everything can be marked to market and are we really wanting to overload accounts with theoretical values and will we really be able to communicate effectively what the essence of the performance of some of the company performance is.

I think we're building within the scope, I think of a very supportive approach, certainly towards a single set of communicable accounts and standards, but I think we do have to understand what some of the dimensions of the Conceptual Framework mean. It's very well to say that we had a road map, there's nine items or eleven items or however many there is on there, we need to understand where ultimately this takes us across some of the key conceptual issues that we need to understand better, and I think we need to understand that fairly quickly because getting to a conclusion on some of those issues may actually be better in the long term than simply removing a reconciliation in the short term.

So we do need to understand where the direction is on the basis of measurement. What, ultimately, is the dimension of fair value? We all know they have a place to play. I don't think there are many who dispute the derivatives and off-balance items that do need to be rallied in some way but how far does it go? We need to understand that better.

Business has been very vocal on performance reporting. I think when we had our first transatlantic grouping of CFOs from Europe and the US; I think the vast majority of the discussion came on that issue. Why is it so important? Well, it's at the heart of the communication. This is the principle communication vehicle by which we begin, only begin, a dialogue on performance. The dialogue on performance is a lot richer than simply net income but I think the issue at the heart of this is performance the difference between two balance sheets, or is it something that needs to be clear recognition of the performance of the company. I think there are some real issues and I think there are some real issues on that, particularly in the inability to get to reliable balance sheets from which you can draw the difference.

My personal crusade has always been around accounting as a language and we've got to be sure that in this pathway that we don't make accounts too complex that they impair the communication process and companies in their communication with their shareholders have to go to alternative formats in order to communicate performance in the way that they, the board and the investors, ought to see it presented. It's already disturbing just how little attention is paid to the hundred or so pages that sit at the back of our 20F by investors. Almost no questions raised on some of the detail and we've got to make sure that they become useful and not become more complex and in the process damage the communication.

I think also as a final point, it's very important that we agree this road map with all stakeholders. It would be great to understand beyond the fine words just what that road map entails. I mean, we need to have a discussion about that because actually that pathway may be a price too high in the short term, particularly if it doesn't lead us to some of the places that we need to debate around the Conceptual Framework. So I think in conclusion undoubtedly this is a fundamentally important exercise. This is not a trivial exercise, this is fundamental to investment, growth, the capital markets and therefore we've got to be sure that we are all committed to the path that we're going on and we've got the first phase, we need to make the first phase work but there's still plenty to debate on round two.

Hans van Damme: From the moods of some people next to me, I see that some of your remarks will get a reaction from their side as well in the question and answer session. I would now like to give the floor to Christian Dreyer. He is the representative of what I would call a rare species. We have difficulty in finding the user environment in certain cases of involvement in the whole process so we're very pleased to have him here. He is the Chair of the CFA Society and is working on advising on pension funds in investment strategies. He will address some interesting subjects from a user perspective and there may be different user perspectives but he will certainly give us some provocative thoughts as well.

Christian Dreyer, Swiss CFA Society President

It's a great pleasure for me to be here in the lion's den, if you like, of revolutionary preparers and also revolutionary standard setters and auditors. As a representative of investors and users I certainly feel a bit like a stranger, if you like, but as it has already been alluded to before, investors are a very fragmented lot so what I am going to say is really my opinion, and my opinion alone.

Investors, as already mentioned, are really looking for all sorts of different things in financial reporting and currently they also have to read, as it seems, the Ladies Home Journal as well,. But what is the point of this event here? What is the meaning of convergence, actually? Preparers of financial statements are certainly looking for one set of statements. That is something that we should be able to work on. That should be the long term view but it is quite clear that this long term view is currently rather Utopian so we are certainly willing to settle for two sets which are equivalent, equivalent in the sense of the CESR definition, namely that users who are familiar with one set of statements, should also be able to make sense of a set of statements that has been prepared using the other set. So that is something that we are able to live with easily in the short term.

In Switzerland, we are always enthusiastic about competition of systems and tax competition might be the one issue which is frequently discussed in this city - so why not have a set of competing standards? What's the point of having competing standards? Isn't there an advantage of having that? Now, there is only a reason for having competing sets of systems if there is actually a legitimate purpose or a legitimate difference in purpose of such systems. Now, what is the purpose of financial reporting? I think there is only one purpose and that is the faithful representation of economic reality. I don't see any other purpose of financial reporting so there is not a legitimate basis for having a competing set of financial reporting standards.

Competition, therefore, would really be a waste of resources along the whole chain of reporting standards or financial reporting in fact. That doesn't mean to say, however, that competition is a bad thing in terms of the ideas for best standards. It certainly isn't and it's absolutely necessary to have competition for the best standards and this competition is currently playing out, for instance, in the convergence process where different sets of standards are being looked at for the best material standard be put into place for the joint set, so that's a very good thing. Also very good is that the competition for ideas is part and parcel of the IASCF constitution. That's a very, very important function of their constitution.

So summing up all this about convergence, I think it's really fully supported from the user community, at least I have never met any user of financial statements to date who was actually opposed to convergence and that's already quite something.

What is the purpose of convergence or, as it were, the gain of all the pain that you guys are subjected to because of that? Financial theory has it that there is always a persistent home bias in the portfolio of investors. A home bias means that there is more capital allocated to the home market of investors than there actually should be from a portfolio management standpoint. There is not much explanation for this home bias which is considered to be irrational other than the fact that investors feel more comfortable with what they know. We've already heard about that before: the comfort level of home investments seems to be higher. And financial statement standards is definitely one of the aspects that investors know about and that they can feel comfortable with. So if you are able to interpret the standards and statements of firms away from your home market, then you are definitely better set to remove that home bias in your investment portfolio. Having a converged set of financial standards and recording the statements will help reducing the home bias.

The removal of the home bias will result in more efficient financial markets which is profitable for everybody who is interested in their development.

That is the macro view. There is also a micro view, an industry based view. In the longer term if you have one set of financial markets, you will be able to streamline the research process more and come to better conclusions in terms of the financial analysis. Analysts don't have to be proficient in two sets, they can be more readily trusted to deal with different statements and sectors. That's also a very good advantage of one set of financial statements.

So with all these advantages, which actually can be expressed in dollars and euros, why aren't standard setters overrun by enthusiastic users wishing to participate in the whole standard setting process? That's something that I am hearing a lot. Why is the voice of users so weak? A reasonable explanations for that is that users are rational, or at least they like to think they are,. It doesn't make much sense in a very competitive environment as we are in to care about the competitive conditions that surround you. It only pays to be half a step ahead of the crowd. It doesn't pay to change the track of the market that you are moving in. So there is a free riding problem involved with that. And that is certainly an issue that is relatively difficult to overcome but it is definitely possible because I know for a fact that there are many individuals, many individual users, who are personally interested in accounting matters and if I look at the participant list of this event here, there are a couple of people who seem to be users and who might be interested in accounting matters, otherwise they wouldn't be here.

What is actually happening today is that users' intrinsic motivation to take care of accounting matters and participate in the accounting standard setting process has been displaced by other demands on their agenda. So that is the actual issue that accounting setters have to consider. They could do that by looking, for instance, at psychological economics or motivation theory for a couple of hints in how to energise people to participate in the process. We are speaking of soft factors here. It's not something that requires a lot of work to communicate to user communities such as CFA societies. Just the other day I talked to a president of another analyst society and he wasn't aware of that the Board's interest in hearing analysts' views. They just set up a new group for local accounting advocacy issues and they were not aware that the IASB is actually looking for their input with these regards. But that has to change, definitely.

We've been talking about convergence, what the purpose of the convergence is, and why financial users are not exactly falling over themselves about participating in that process.

But are there risks in the convergence process as well? Well, I bet you there are and there's quite a lot of them. Now, you might say that I am a bit naïve in saying that but if it's not a user representative actually saying this, I don't know who could be saying it. Standard setting is a very powerful process and a very important process. But as we know from Lord Acton, power tends to corrupt and absolute power tends to corrupt absolutely. So a converging set of accounting standards is a very tempting target for political interference into what should be a technical process at heart.

The temptation for politics to meddle with the standard setting process is definitely increasing thanks to that joint action setup. However, standard setting in itself is not a political process. It should be a technical process aiming, as we have already heard before, for faithful representation of economic reality. The trust of financial markets in standards thus set relies on their apolitical nature. That is rather important, particularly from financial market participants. There is only so much they will take in terms of political meddling with standards.

Another issue is that of investor protection: it is all very well but don't try to protect investors from making their own mistakes. That is a very important statement. Financial markets are all about, or are very much about, making mistakes and losing money, and that cannot be changed. That has to remain the core of the functioning of financial markets. Somebody once said that forecasting is a difficult business, especially when it concerns the future. This uncertainty concerning the future cannot be removed from financial markets, not even by political means.

Also, additional risks are the regional divergences due to political meddling and I am sorry to say that "IFRS as endorsed by the EU" is already some sort of a regional divergence from the core standard, if you like, and that could be actually the case before actual convergence is achieved. So there is the risk of divergence before we actually have fully converged.

There is also the risk of regionally diverse or divergent interpretations, implementations and enforcement. That's certainly a case for auditors here present. And also there is another threat to the integrity of the one set of standards. For instance, small and medium enterprise standards which are optionally available to firms. There is by necessity a blurred line between these options and between those families of standards.

All this sounds rather gloomy but I'm actually an optimistic person so I don't think that these risks are eventually going to work out because what is at stake is far too big. If we are actually going to achieve the objective of converged standards then where are we going to take financial reporting to in the future?

We've already heard this morning the almost triple No about adding new carriages to the IFRS train from Commissioner McGreevy. Well, if I may recycle the metaphor of the IFRS train, what we are basically trying to do in the CFA Institute with this document here which is called a Comprehensive Business Reporting Model, is laying the tracks for the IFRS train moving forward into the future. This paper is an update to a 1990's paper which was called Accounting in the 1990s and beyond, and it is currently in the final stages of commenting from our membership base. For your information, the CFA Institute has 70,000 members who are chartered financial analysts all over the world, and we are currently collecting comments on this paper.

I would like to give you just a very brief overview of the paper's 12 Commandments. We couldn't do with Ten Commandments, so we added another set of two Commandments. It's a nicer number anyway. What is it all about?

We are actually using the current common shareholder perspective so that is financial reporting should be done from the current common shareholders' view.

The next point does not require a whole lot of explanation: full fair value. We will be busy with that for a while to come, though.

We prefer relevance over reliability, which is obviously connected to full fair value as well.

We don't want to see any more off-balance sheet transactions or events so virtually everything has to go on statements.

Decisions on the materiality threshold mustn't be taken by a rule of thumb but rather from the point of view of the informed investor.

Also, we prefer neutrality of financial statements over the prudence principle. The prudence principle is out of the window actually.

The following few principles are dealing with statements that we have been re-arranging. We would be introducing a new "statement of changes in net assets available to common shareholders". That statement records all changes of net assets. It contains timely recognition of all changes in fair value.

To the cash flow statement - the cash flow statement in the future we see as being prepared using the direct method only. Articulating items which are affecting all statements should be reported on a disaggregated basis.

Second to last, we prefer nature over function of reported items and finally disclosures should enable us to understand the scope of recognition, measurement properties and risk exposures of recorded items.

That can all be summed up in one small sentence basically. *Full fair value in one statement.*

I guess that's a bit of an agenda for you and this document is available now. I have a couple of copies here, it's also available on the internet (<http://cfapubs.org/ap/issues/v2005n4/toc.html>), and like I said, it's in the final comment period and I guess there will be quite a bit of discussion about these issues.

Questions and Answers

Hans van Damme: Looking now at you in the audience, you've all been very patient in waiting until you have the opportunity of asking questions. I am confident it will be a number of questions coming from the audience. We have roughly half an hour of dealing with them. Of course, during lunch you might want to discuss and debate further but let's first see what we can address in this session. Who can ask the first question?

Michael Crooch: Hans, before we do that, I forgot to give my disclaimer to all the things I said. Please recognise that I should have had the standard disclaimer before I made my remarks.

Gerard Heeres, VNO-NCW, STAR, Netherlands: The chairman this morning asked for controversial questions. It's about convergence of pension accounting. First of all, I have to give my position. I am chairman of the Pension and Accounting Committee of the Employers in the Netherlands. All of you know pension is hot stuff and also pension accounting. Pension accounting in the United States is FAS 87, and in Europe, IAS 19, and in the UK FRS 17. Perhaps you know that FAS 87 is, at this moment, under review and a lot of people in the United States have the belief that FET 87 is out of date and is not any more

representing the economic reality. So, what happens now? We have introduced IAS 19 in Europe on 1st January of this year, and the question is, is IAS 19 innovative? My answer would be no because IAS 19 is a copy of FAS 87. So my question is what will be happening with IAS 19 and also IAS 19 be under review and when? But much more important are the results of all this and I especially talk from an employer's point of view and that means that in the United States but also in the UK, not any new defined benefit plans have been settled, only DC is the best word and DC is the word for defined contribution. So I want to have, please, a comment on this, of the FASB and of the IASB. Perhaps it was out of my heart also, what Mr Crooch said, don't create unnecessarily volatility.

Michael Crooch: I can give you some remarks. The Board has agreed two things. One is that we have asked the staff to prepare a document that would in fact put the difference between the assets and the pension liability on the balance sheet of US financial statements. The difference would be either an asset or a liability and changes in the amounts of those numbers would go to what we call other comprehensive income. As a result they would not go through the income statement but they would be in fact disclosed and the idea would be that the balance sheet would in fact have a better representation of the amount of over-funding or under-funding that existed at that particular balance sheet date. That is a first step in a project and that project may take as long as a year. I suspect that it will be controversial, lots of suggestions for change, etc., but at least we're moving in that direction.

The second part of this is that we believe that we will, I believe, that we will add a comprehensive project onto our agenda addressing pension accounting a 100%. The criticisms of the US standard, all of you know, there's all this smoothing and hiding and quarters and all that kind of stuff, and as a result many believe that the understandability of the pension accounting in the United States is pretty low and the amount of information that is transferred is pretty low and therefore we hope that we will be able to look at that and make it better. It is clearly a long term project, it's a very difficult and complicated area and it will take a while for the staff and the board to work through it.

Sir David Tweedie: Well, Jon mentioned that he wouldn't like to see standards be an academic exercise. I fully agree with that. If you look at IAS 19, which, as you rightly say, is based on FAS 87, the calculation really defies explanation. If you look at what happens, if you had a pension fund which had 40 million assets and 40 million liabilities, and the assets fell 10 million, you have a deficit of 10 million. Now what happens under US accounting and some of the options in IAS 19? You take that 10 million, you decide that some of that is part market noise, that's the corridor, which is 10% of whatever is higher, assets or liabilities, well; liabilities are higher at 40 million, so you knock 4 million off the liability, so now you're down to 6 million. Now you spread that over the working lives of the employees, which, let's say is 10 years, you would end up with a figure on your balance sheet of a deficit of 600,000. Now, you explain that to your grandmother. You may as well take, say, 10 million and divide it by the cube root of the number of miles to the moon and multiply it by your shoe size. It doesn't mean a thing. That's what we've got to get away from.

I think accounting is not rocket science. I fully agree with Jon. You've got a deficit of 10 million. You have to show it. If you look at pensions, that's the first thing. The second thing, as Mike said, is where you display it and I understand the question of volatility, it's different from trading widgets, you want to show it separately and other comprehensive income is the place, there are other areas you've got to look at because if you want to look at the US and the S&P 500, the balance sheet deficits, well, not deficits on the balance sheet, but the deficits on the pension funds and post-retirement healthcare, are actually US\$500 billion. Now, we've got to make sure that's on balance sheet because you've got companies like General Motors that didn't seem to realise they had a major problem on their hands and it wasn't accounted so they got into terrible trouble.

And another feature, which I find absolutely bizarre about both IAS 19 and FAS 87, is in the P & L account; we actually offset the cost of pensions with estimated future returns. Some of these estimates are heroic and in the last four years in the United States, the S&P 500, the figures that have gone through as the estimated gains on assets in the fund are \$498 billion, actual returns was \$197 billion. So \$301 billion have just sailed through the P&L account, just by an estimate. We can't do that. And that's where I think this nonsense has got to stop. You can explain what happened to the pension fund, your deficit is X and there's the effect. I think this is one of the most important public policy issues we've got and we brought in FRS 17 in the UK, it's not perfect either because it still has this gain going through the P&L account. And it's turned

out, interestingly, that one of the major features that I found about that was that people like Jon would be saying to you now we're actually discussing pensions in the boardroom. We didn't before now it's obvious what's happened and some analyst is going to ask a question so what are we going to do about it? And we're finding the answers appearing in the MD&A or Operating Financial Review, or whatever you want to call it, it's okay, we've got a deficit of 40 million, we're going to put another 5 million a year in, we're going to assume that the gains on assets are about 4% per annum, we change the scheme slightly, we'll be back in equilibrium in 2009, the effect on profits, 1.4%. End of story. And then you're managing it. So I think this one is very high priority. If you wanted to ask me which standard I think we should do first, it's that one. I think it's critical. It's on the road map as being a joint one to get done but it's something that is pretty obvious. Accounting is not rocket science; we just have to tell the story honestly.

Christian Dreyer: I would just like to second what David has been saying and second it in two ways basically. It's one of the instances where the political risk on standard setting comes in, that's one thing, and the other thing is if there is volatility we want to see it.

Jon Symonds: I think this is a good example and it's one where accounting needs a reality check because David says, and anybody who lives in the UK, more headlines than not in recent times have been around the pension crisis. It is a pension crisis. We've all pretty well closed our pension schemes and we have now a clear idea about the obligations that we've got. I think your reality check goes further than that. When you have rating agencies making rating decisions around pension deficits and when rating agencies make their decisions, they affect decisions that boards make about dividends, share buy-back capital structure decisions, the pension regulator in the UK is now mandating cash settlements based on FRS 17 liabilities. It's pretty hard to stand up and say, well, actually, we don't think you need to put it on the balance sheet. I agree with David, this is one of the biggest economic and social issues that the developed world has got to deal with and accounting is always going to lack credibility if it doesn't deal with it.

Michael Crooch: We will, of course, be accused of eliminating defined benefit plans by adopting this accounting.

Norbert Breker, IDW, Germany: One question to Christian, you mentioned that you would be strongly in favour of a full fair value measurement of all balance sheet items. For me the question arises how do you define fair value? Do you do it like this in current IFRS, for example, with regard to financial instruments saying it is an exit price for selling assets? The next question is do you really think that exit prices are a relevant measurement attribute for all balance sheet items including in particular goodwill?

Christian Dreyer: There's certainly a lot of issues involved with the full fair value and where there are no liquid markets, for instance, for assets, then there are problems that will come up with reasonable fair value estimate and there's also the issue of estimates - how do you come by reasonable estimates and model assumptions and so forth? What is important at any rate is that these assumptions, these model estimates, are made transparent. The assumptions that are used have to be visible in the statements so that they can be replaced by or validated with the analysts' own estimates and interest rate assumptions, for instance, and therefore can be corrected. But it's certainly more relevant to have such numbers and recording estimates in the statements rather than have some antiquated cost numbers.

Lavinia Olimid, Romanian Institute of Expert Accountants, CECCAR, Romania: I was thrilled to hear about the codification project. It is very good to have all the standards and all interpretations in one place. My question is a little bit different, it relates to the framework project. I read on FASB's website that one of the conclusions that was reached is that the user, the main users in the conceptual framework, are the investors and the creditors and comparing with what SEC representative has said earlier, that only investors, and no regulators or other stakeholders, are the perceived users of the financial statements in the US and yet how can these two aspects be put together?

And the question for Professor Tweedie relates to the availability. Is there a project to put them on the website or to make them available to a wide range of users?

Hans van Damme: Let's first go to the first question, more particularly the issue of the framework which was, by the way, an issue which we also discussed yesterday at some length in a meeting with certain of the Trustees which was quite interesting as part of the normal consultation with the community. We also spent some time on the one side, communication, one of your questions on the other side, indeed, the framework.

Michael Crooch: If I understand your question, the question is whether or not the SEC thinks that financial statements are aimed at creditors as well as investors. I think they do but obviously they have an interest in providing information to the readers of financial statements that provide credit. I think maybe, I don't know, since he's not here and he may have just short handed, didn't give you a full definition of who he thinks the financial statements were going to but they clearly have a very strong interest in having high quality information to debt holders as well.

Hans van Damme: May I add one personal flavour, I got the impression, indeed, from listening to Ethiopis Tafara, that he felt the investor decisions are more important than any stewardship type of approach and if you balance the two, then you might think, well, it's going one or the other way.

Michael Crooch: One of the things that is being debated heavily in the United States in certain circles is the weight that you put on stewardship vis-à-vis information that is for investors and the answer to that is may never be solved but it's still on the table.

Hans van Damme: There's an important issue, indeed, of trying to resolve that, well, maybe a bit more rapidly although as you said yourself you haven't looked for so much as the Framework for many years but I think that's the user and preparer community would like to have some further insight with that.

Christian Dreyer: The CFA Institute business reporting model says that the perspective of financial reporting should be that of the current common shareholder. This required some explanation. It is not just for the common shareholder's benefit that statements are prepared. But we are of the firm view that if the information requirements of the current common shareholder as the last in line basically to receive cash flows are fulfilled, then the information requirements of all other stakeholders that we can imagine are also taken care of. That's the approach we are using.

Michael Crooch: One of the issues is that if you lend money to the corporation, you typically have the ability to get information, I think, that you want or if you can't get it, maybe you don't loan them the money so there is some leverage that they have that investors may not...

Sir David Tweedie: I don't get involved in anything too filthy as money so it's really left to the Trustees but the issue you raise is a very important one. The costs of the IASB run something like, if I remember rightly, US \$18 million, most of that is my salary, but we find that the money we get from donations from companies, big firms, etc., is something in the region of \$16 million and we fill the gap by selling publications. Now I think all of us would much rather give them away free and Trustees are looking at the funding at the moment and how it can be done. Closing the gap, I think it makes a lot of sense to give everything away free. That's what we are trying to do. We're trying to spread international standards and that would certainly be one way of doing it and we're constantly asked for discounts from emerging economies and so on, so it would stop a lot of problems if we did that, but it's a funding thing so if you give us more money we'll give you them free.

Olivier Azières, French Institute: Firstly, I welcome the optimism that was shown by the road map designers, architects that spoke this morning about the sooner than later, eventually a cancellation of the reconciliation footnote with the US SEC, and we were very interested to hear some detail about the road map issues. We have understood that the pension issue and your case for the pension issue you just made is compelling and probably many experts would support that. My question is on another issue that is apparent, a very ugly debate these days, which is the business combination phase two issue. We can say for the recent round tables that most of the European preparers and stakeholders in general have strong concerns about the current exposure draft and the concepts that underlie this exposure draft and we wouldn't like to see in this optimism that was mentioned at the beginning, that this could be a factor that would handicap progress and be a hurdle that the SEC would put on the roadmap that eventually would create a new challenge. Can you bring some clarity on this business combination issue, please?

Sir David Tweedie: Well, the project's an interesting one because we have different methods of business combination on both sides of the standards. In the US they have a rather bizarre method of valuing the assets on the acquisition. They don't use the fair value necessarily. They use the fair value of the portion you have plus the historical cost of the minority portion. Now, you can't explain that one to your grandmother either because that number doesn't mean anything, so part of the issue was, okay, well, the US is going to show the fair value of these assets and then some were saying, well, by showing the fair value of minority stake in the assets why don't we show the fair value of minority stake in the company? It's an exposure draft, what we can't do in a final standard, is make it tougher than the exposure draft without re-exposing again. So there's a coherent theory in there and people don't like it and, we have to take that into account. There are other aspects, clearly, that aren't popular, but that's what this is all about, to expose things. Then we have to look at it, and if we change it dramatically, we have to re-expose if there's something that you didn't test in the exposure draft, but clearly we got the views back from the round tables and from the submissions. We've got about 300, I don't know how many Mike's team have got, but we'll look at them. I think they had the same reaction in the United States, I wasn't there but I gather it was similar, so this is something we have to look at. We must look at the process, not just one document within the process because they change.

Michael Crooch: I think that our processors are very much the same and that is we did hear at our round tables some discontent with several of the issues, several of the proposals. It is absolutely clear that our staff and, in fact, I'm in charge of this for the FASB, that my staff is putting together a process that we will re-deliberate based upon the comment letters that each of these issues. One of the things that is clear, however, is that it's not a popularity contest, and that is that if you get, as we did in our stock option project, we got 14,000 letters and probably several hundred of them had the same typographical error and were all the same. But it's not a vote; it's the quality of the standard and the ability to, in the Board's view, collective view, that it is a better statement, a better depiction of what went on. What the answers are going to be at this point we don't know. We haven't even started the re-deliberations.

Jon Symonds: Well, I think at the end of the day what we want to have is a full debate on the issues laid down on the table and every constituency communicating and I think we can say without too much shadow of a doubt, they don't act on this and so I was saying that what you want in a standard setting process is a full dialogue and all the issues out on the table and there's no doubt on this one that there are plenty of issues out on the table and I think it now needs to go back to re-debate and I look forward to the second exposure draft because I don't believe it's capable of being moved to a standard given some of the issues that are out there, particularly around some of what the preparers believe is in extension to some of the principles that have already been debated. So whether that's our view that's different, you know, I think that's what the consultation process is all about.

Philippe Duren, PricewaterhouseCoopers, Luxembourg: I am addressing a question regarding a specific industry accounting standard. For the time being, there is very few industry basically standard and there is one industry which is quite material on a world wide level, which is the investment industry in terms of capitalisation and also on the public interest company which is not addressed by any standards, so is there any intention by the IASB to address these questions and if yes, when?

Sir David Tweedie: What we are having to do at the moment is try and look a standards for the generality of companies and we intend not, at this stage, to look at individual industries. Some pop up because they're a major problem, such as insurance, oil and gas mining, and there are also others that there's been a lot of pressure from the World Bank and places like that to look at it. These are the ones we're looking at just now. The investment fund industry is not on our list. We can only do so much and this isn't one that's there. We have to ask people what's your priority and obviously each industry would like us to look at each of their problems but we actually try and look at the generality of companies unless there's a special case. Insurance, I think it was generally felt, insurance accounting world wide is not very good and they control an awful lot of our assets and we really ought to make it more transparent. The insurance companies I think would agree with that, maybe not that the accounting isn't good but would certainly agree with having a look at it. So we do have to look at these issues but the one you mentioned, no, there's nothing imminent at the moment.

Hans van Damme: Well, if I make a very short summary of what we have been hearing this morning, I think that, it's a promising view that we might be getting into the direction of the convergence. We have touched upon a number of issues relating to convergence and elimination of the reconciliation statement in the not too far away future. There may be plenty more issues which we can debate for quite some time. I think it's also important to see we make the progress and keep the speed on. Communication, I think, in that whole area is quite key and the continuation of due process and strong demand I would say on both the standard setting but also on the preparer, the users and the other sides of the equation to provide the input.