

Policy Statement

Standing for trust and integrity

July 2009

Financial Reporting

Future Approach to Setting Global Financial Reporting Standards

FEE (Fédération des Experts comptables Européens - Federation of European Accountants) believes that a new approach is needed to get to a single set of global standards. This policy statement sets out the European's professions view that convergence should no longer be a key driver and that the IASB focus should be on joint development of new standards in duly identified key priority areas. FEE has also issued policy statements on issues related to the financial crisis, sustainability and audit and assurance¹.

About FEE

FEE represents 43 professional institutes of accountants and auditors from 32 European countries, including all of the 27 EU Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 500.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent, and sustainable European economy.

The IASB's convergence strategy has delivered good results since the IASB was created in 2000 and was appropriate during that period. Many countries have now either adopted IFRS in full or have substantially reduced the differences between IFRS and their national standards. The convergence project has been instrumental in eliminating the reconciliation requirement between IFRS and US GAAP and in advancing the objective of IFRS adoption in the US.

FEE believes, however, that we are now in a period of diminished returns from further convergence due to the rapid increase in complexity, without hardly any additional benefit to investors that arises when seeking to eliminate increasingly smaller differences between IFRS and other standards.

The IASB should now change its strategy and concentrate exclusively on major improvements and simplifications in IFRS over the medium term. To this end, it should work together with standard setting bodies from around the world, so

that all stakeholders can be fully engaged and ensure that the quality of IFRS is not compromised.

FEE believes that the G20 should urge the IASB to use all existing high quality accounting standard setting expertise from around the world, including those within FASB and EFRAG, to work together on new global solutions in those areas that really matter to investors.

The number of active projects should be reduced significantly and attention should be focused on those projects that really set the scene for the development of future standards.

FEE believes that countries and markets are best served by high quality financial information and that this is best delivered by a single independent global standard setter for accounting and corporate reporting. In addition,

FEE believes that the G20 should urge the IASB to use all existing high quality accounting standard setting expertise from around the world, including those within the US accounting standard setter, the Financial Accounting Standards Board (FASB), and the European Financial Reporting Advisory Group (EFRAG), to work together on new principles-based global solutions in those areas that really matter to investors.

Implications of convergence

Over the last few years convergence has been a main factor driving the IASB work programme and the related priorities.

Convergence between IFRS and US GAAP has impacted the IASB's work programme in two ways. It has led to a number of longer-term joint projects

with the FASB on issues such as Revenue Recognition and Leases and has been the main driver behind a range of short-term projects. In relation to the longer-term projects, these are agreed to be important (although not necessarily urgent). It is clear that a joint approach with the FASB has been an effective way of developing high quality standards. In relation to the shorter-

term convergence projects, these have resulted in piecemeal revisions and relatively minor changes to IFRS, that are not necessarily improvements to the standards, and that have caused a lack of stability in IFRS. Moreover, the standards that were revised or are currently still being revised as part of the short-term convergence programme are often not considered to be of a high priority from an IFRS perspective. Recent examples would be Derecognition, Capitalisation of Borrowing Costs and Income Taxes. FEE believes that the point has been reached where there are diminishing returns from further converging with US GAAP, in particular now that more and more countries, including major economies such as Japan and India, move towards direct adoption of full IFRS.

In FEE's opinion, a proper balance needs to be struck with the speed and nature of the changes, in particular where current IAS or IFRS are not perceived to

be causing problems that need to be resolved. FEE has called on the IASCF to instigate, together with the IASB, an annual public consultation process on the IASB work plan. A specific procedure needs to be in place - with appropriate oversight - for adding issues to, but also withdrawing issues from, the IASB work programme. Completion of such a public consultation would also assist in getting input into the IASB priorities and may assist in solving the problem of the current agenda overload.

FEE believes that now is the right time for the IASB to launch a public consultation on its work plan, given the clear need to reconsider priorities, taking into account the implications of the financial crisis and concentrating on major improvements and simplifications. The number of active projects should be reduced significantly.

A new approach to setting global financial reporting standards

The concept of convergence and the role it plays in the IASB's priority setting needs to be reconsidered.

FEE believes that the existing model of convergence is no longer sustainable due to diminishing returns and therefore calls for a new approach that is based on working together towards developing the highest quality principles-based financial reporting solutions in duly identified key priority areas. The development of new financial reporting standards should go beyond the thinking under existing national standards. A joint development and parallel implementation by all stakeholders of new global principles-based standards is the best way forward to develop high quality standards and to deliver a level playing field, without favouring input from one jurisdiction over another. The IASB would then truly be operating as an international body.

Developing new standards and making improvements to existing standards should be guided by a work plan that sets clear priorities and that justifies the need for changes. Although there should be continuous improvement of standards, improvements made must be measured in cost-benefit terms. In other words, improvements should be made only in areas that really matter.

New standards on major issues, such as financial instruments or pensions, should be developed jointly by the IASB and the best standard setting resources available from national/regional standard setters, with active participation from preparers, users and accountants at a global level. This will ensure that the resulting standards are generally acceptable and in turn this will facilitate the adoption of IFRS by all major countries around the world. In order to obtain a level playing field, all countries should be called upon to adopt full IFRS.

National standard setters must give their input into draft IFRS pronouncements in order to ensure that IFRS meet the needs of the stakeholders in their countries and to contribute to the thought process as to how to develop the best accounting and financial reporting solutions. In Europe there is a major role to play for the enhanced EFRAG in which major European standard setters cooperate. EFRAG will have increased resources to dedicate to the pro-active work in order to be a major contributor to the discussion on issues that are of concern to European stakeholders.

Deliberations of the G20

In April 2009, the G20 called on the world's accounting standard setters to continue to work towards a single set of high-quality global financial reporting standards. FEE welcomes and strongly supports this call. Recent political pressures exercised on both the IASB and US FASB to create a level playing field between IFRS and US GAAP have demonstrated the risk of driving global financial reporting towards a lowest common denominator, at the expense of users of financial statements. This development must be avoided. FEE believes that the G20 should stimulate individual countries to move towards adoption of full IFRS. The US regulatory reform plan of June 2009 gives opening for this to happen.

Finally, FEE believes that the G20 should urge the IASB to use all existing high quality accounting standard setting expertise from around the world, including those within FASB and EFRAG, to work together on new global solutions in those areas that really matter to investors. ■

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¹ The other FEE policy statements can be found at the FEE website: http://www.fee.be/publications/default.asp?library_ref=4&category_ref=235