

## TRANSCRIPT

# FEE Seminar

## IFRS Convergence and Consistency

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### **Keynote speech: EC Strategy on Financial Reporting: progress on convergence and consistency**

*Commissioner Charlie McCreevy, European Commission, DG Internal Market*

Ladies and Gentleman,

I am very pleased to have the opportunity to speak to you today on the topical issues of convergence towards one set of global standards and the need for our accounting rules to be applied in a consistent manner.

As you know, the EU is the largest jurisdiction making use of IFRS and we have a strong interest in moving forward towards worldwide standards. At the same time we must do our homework so that, inside the European Union, we will benefit fully from the standards which we adopt. This means, in the first place, ensuring that they are applied in a consistent manner. This is important not only for the success of IFRS as the set of global accounting standards, but also for our relationships with the United States and Japan.

And that is why today's seminar is timely and important. It gives us the opportunity to review, after nearly one year of experience, how IFRS are shaping up and to clarify what consistent interpretation means in practice. The presence of colleagues from the SEC means we can also have a frank exchange of views on convergence. I should like to thank them for making the effort to be here, for their willingness to make progress and to discuss this issue.

#### *Use of IFRS in EU*

It is worth recalling why the EU decided to embark on the IFRS endeavour. For the EU single market, it would of course have been possible to try and develop some kind of EU GAAP. But the EU has a broader and more ambitious vision for accounting. Capital is the most mobile of all resources. Our financial markets are becoming ever more closely integrated. Global capital markets require and deserve global accounting standards. This promotes greater efficiency, better diversification and lowers capital costs. In turn, lower capital costs promote investment growth and employment. So the gains from a truly global accounting standard are really enormous. The EU has made a major, visionary move, towards the development of a true global accounting standard. Now we are translating the vision into reality and making it work in practice.

#### *Consistent application of IFRS in the EU*

There is no denying that consistent application of IFRS inside the EU is a challenge. Many players are involved and the standards are new, perhaps even, in certain respects, revolutionary. But I am determined to do my utmost to ensure that we will meet the challenge.

IFRS has the merit of being a principles-based standard, but 2005 is, of course, its first year of mandatory universal application in Europe for about 8000 EU listed companies. It is reasonable to expect some teething problems in its application or interpretation to emerge and we need to address these effectively. Issuers will quite rightly seek guidance early on, when they are preparing their financial statements rather than later, after the regulator tells them they need to be restated. We must therefore be certain that suitable arrangements are in place to ensure that any emerging issues can be properly identified and resolved in time.

You are all aware of the key primary role that CESR plays in relation to enforcement and indeed this is recognised in the IAS Regulation. The Commission very much welcomes the efforts of CESR to date. CESR has created several working groups in order to coordinate enforcement decisions in different jurisdictions. In the interest of transparency, there will also be a public database of such decisions taken in EU jurisdictions.

But we also need some broader arrangements to facilitate consistent application at company level. Arrangements which bring together all the relevant stakeholders. This is why we have been looking at how we can achieve a smooth operating and efficient co-ordination mechanism, without any heavy procedures and new bureaucratic structures.

The idea for a temporary, informal Roundtable has been gaining ground. Such a Roundtable, involving representatives of the relevant stakeholders such as IASB, CESR, FEE, UNICE, audit firms, National Standard Setters and preparers, would gather diverging national and local interpretations or guidance given on IFRS. It could then proceed and group together those issues which give cause for common concern and recommend, where necessary, that these should be taken up by IFRIC. But let me already make it clear that the Roundtable will not be making any interpretations. That is the task of IFRIC. And neither would the Roundtable be used as a platform to review decisions taken by enforcers.

#### *The use of IFRS in other jurisdictions, especially the US*

It is my firm belief that accounting standards should be international and be used across the globe. We have committed to use IFRS, but other important markets -notably the US – have not yet done so.

Our interest in the acceptance of IFRS in the US is of course not purely altruistic. Today there are about 250 EU issuers listed in the US using IFRS. The cost of the current US GAAP reconciliation requirement is enormous. I have heard estimates of between 1 and as much as 10 million dollars for the largest companies. And that is every year. But the story does not end here. There are many companies from other jurisdictions who also have US listings and use IFRS.

That is why I think my agreement earlier this year with the former SEC Chairman, Bill Donaldson, and the SEC roadmap to remove the US GAAP reconciliation requirement is so important. This roadmap means that IFRS could be accepted in the US no later than 2009, or even sooner.

We very much appreciate the efforts by our colleagues in the SEC to advance this issue, and continue to work positively on the roadmap. The issues involved are difficult and will necessarily take time. Therefore it is all the more important to have a clear goal.

#### *Equivalence between third country GAAP and IFRS*

In the EU we are looking into the use of third country GAAP in order to establish whether these should be considered equivalent with IFRS. The Commission intends to address the issues arising under the Prospectus and the Transparency Directives before 1 January 2007.

CESR has now delivered its technical advice and indicated that there would be need for more time before major third country GAAPs (US, Japanese and Canadian GAAP) could be considered fully equivalent with IFRS.

For the moment, my personal view is that the best way to proceed may be for the EU to defer an equivalence decision and prolong the status quo, rather than taking any decision now. This option would align the equivalence agenda on both sides of the Atlantic and allow time for consolidating our experience of working with IFRS in practice. I am currently discussing with Member States and consulting major stakeholders on this approach.

#### *Convergence between accounting frameworks*

Convergence of existing accounting frameworks is important for the development of a truly international set of accounting standards. This issue is much discussed at the moment. But we must first define our terms. What do we actually mean by 'convergence'? I'm sure that much debate will turn around this today. From my perspective, our objective is to have an effective process up and running which will reach a sufficient level of convergence within a reasonable timeframe. We are not seeking to establish an absolute level of convergence. This would be unrealistic and the end point would probably be somewhere near to infinity. Although traditionally convergence has concentrated on the US GAAP- IFRS axis, we should not forget that today, convergence is not just limited to US GAAP. Other important and major jurisdictions are also seeking to more closely align their national accounting standards with IFRS and engage in fruitful cooperation with the IASB. Japan and of course China, with its breathtaking economic development, are two obvious examples.

The convergence objective has been elevated to the supreme goal in the work plans of the IASB and the FASB. But one must not lose sight of the fact that convergence is a tool, not an end in itself. There is increasing concern in the business community in the EU that the convergence objective may lead to a new generation of complex and untested accounting standards.

The convergence exercise must be a two way street and it must not be allowed to destabilise the IFRS platform in Europe. I would like to stress that convergence is not an invitation to standard-setters to try and advance the theoretical frontiers of accounting. I will not take on board any revolutionary new standards. This should be a practical exercise, firmly anchored in business reality, to be undertaken in the interests of users and investors. The main objective is to try and narrow the differences between the existing standards, not to make accounts even more indigestible with a whole set of new standards! We will not be adding new carriages to the IFRS train, just as it has left the station.

#### *Conclusion*

Ladies and Gentleman, to conclude. The concepts you will debate today are far from abstract notions. Their practical application is key to the viability of IFRS and global accounting standards.

I am delighted that FEE is playing such an important role in these developments: the organisation of this conference is but one example.

We must rise to and meet the IFRS challenge. If we are to do so, we will need the commitment of all you present here today. Continued co-operation will be essential. I, for one, intend to put every effort into making sure the EU does meet the challenge and sincerely hope you will join me in doing so.

Thank you.

## Questions and Answers

David Devlin: The Commissioner has very kindly agreed to take just a few questions for a few minutes, so would somebody like to put up their hand and we'll have a microphone to you in a moment? This is a unique opportunity to get your point across.

Well, just to start things off, because we are, as it were, subdued this morning; you mentioned the idea of a round table. How soon, do you think that you might be contemplating setting that in place and beginning to activate it?

Commissioner McCreevy: Well, I've already put in train this particular idea and hopefully very, very early in the New Year we'll have it up and running. As I said in my address, it is going to be an informal body. We will have a round table to have the people that I referred to in my address and they would group together some of the issues. It will not be an interpretation body: that will be left to IFRIC, it will grab things, filter them and send them on.

David Devlin: That sounds an attractive notion to me that we're not setting up in competition within IFRIC, which would never do.

Nigel Sleigh Johnson, ICAEW, UK: Presumably, it's not realistic to expect the IASB and the FASB to stop working on their convergence projects and the new standards and thinking that they are contemplating, would the Commissioner support an approach whereby that work continues but when new standards emerge they have an implementation period that is extensive so that we won't see these new standards come into effect perhaps until 2007, 2008 or perhaps even later?

Commissioner McCreevy: I've dealt with this particular point on a number of occasions and I referred to it again this morning. I expect the work programme of the IASB from our EU viewpoint, to iron out difficulties that there are with the present standards and with convergence. These are the kind of technical issues, addressed in the roadmap and which need to be got out of the way: that is the programme for the foreseeable future. When the existing IFRS platform is well bedded down and the problems are ironed out, then, and only then, will I consider what I would term moving forward into new areas on accounting standards. We have enough difficulty throughout the European Union having a consistent interpretation and implementation of the existing new IFRS standards, we want the convergence programme to be limited to ironing out difficulties in the convergence area and I have made this quite clear and I repeat it again this morning, I am not giving any commitment on behalf of the new European Union of an automatic sign-up to any new standard. That has to be absolutely clear.

Hilary Galea-Lauri, KPMG, Malta: In parallel with the convergence and consistency projects, what plans do you have to ensure narrowing the gap between the endorsement process that IFRS needs at EU level to avoid having an endorsed IFRS different from the IFRS?

Commissioner McCreevy: Hopefully we've learned from the mistakes of the past and they will not be repeated.

Eric van de Kerkhove, Deloitte, Luxemburg, and I would like to talk about the investment fund industry in Europe. When you look at the US approach, there has been an interpretation for this specific industry in the US in applying the US GAAP. Will the Commission support some interpretation for that specific industry, which is a trillion euros in Europe and distributing among everyone when applying IFRS in a very regulated environment where CESR has not given a clear answer and industry questioning their regulators to have a clear view about how to apply these at European level and more widely, world-wide?

Commissioner McCreevy: I can give you a very direct answer to that. I don't know the answer because it's unfortunately more than 25 or 30 years that I have practised and I'm not even sure what particular problems there are but I will certainly have my services look at the problem and seen what recommendations are from CESR and what are the difficulties.

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David Devlin: Yes, I would just say that it's something to which you might feed back into the question and answer session before lunch. There is an explanation; it's a fairly highly technical point.

I think we should draw the Commissioner's session to a close at that, and I'd like you to thank him again.