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Keynote Address

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

"Financial Reporting in a Changing World" Conference

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Ladies and Gentlemen,

Accounting is now a hot political topic. That is no bad thing. The role played by accounting standards in the current financial turmoil has become the subject of heated debate. And whatever your views on how much blame can be laid on the doorstep of the accounting rules in this crisis, I think we can all agree that we have important lessons to learn for the future role of accounting in building our recovery.

The crisis has thrown up certain issues which need to be addressed. Did the accounting rules accelerate the crisis or aggravate it? Moving forward, there are also medium- to long-term reflections, such as to what extent buffers should be in place and what model we should use for this. Another broader issue is whether the current corporate reporting model serves the information needs of investors and those that run the businesses.

The calls for the IASB to get its house in order have grown louder. But let's be clear, this conference will not be a full frontal attack on the accounting rules and the standard setters. But the call for us to back off and leave it to the standard setters just misses the point. Although no one likes a messenger who brings bad news, we are not about to shoot the messenger.

Let us not forget that it was the EU that took the first step to adopt IFRS. Some might say we had the first mover disadvantage. But today, with a common accounting language, the EU is on far stronger ground. We certainly have a crucial role to play in the ongoing governance reforms of the IASB.

To that end, I am honoured to launch this conference. There are three blocks to the agenda: the international standard-setting system; accounting and the crisis; and accounting for the future.

THE INTERNATIONAL ACCOUNTING STANDARD SETTING SYSTEM

In these difficult times, it is easy to overlook what we have achieved over the last few years. We remain committed to an international standard-setting system: falling back on national or regional solutions, even if sometimes tempting, is not the way forward. And this is not solely an EU view. The G20 has called for the creation of a single high-quality global accounting standard, as well as for co-operation among regulators, supervisors, and accounting standard setters to ensure their consistent application and enforcement. It is very important that all major jurisdictions sign up to the international system. For us, it is now crucial that the US come on board. Together with the US, we make up 70% of the world's capital market.

That is why I am especially delighted to welcome John Smith (IASB) and Julie Erhardt (SEC) here today.

Accounting is now far too important to be left solely to ...accountants! Independence of standard-setters is important, but they must be fully accountable. When the IASB acts or desists from doing so, this can have significant economic consequences. The IASB cannot set an agenda oblivious to economic and financial developments or fail to deliver. We thus need to look at how the independence, quality and funding of the IASB can be improved and the reporting lines with public authorities strengthened.

The IASCF is now the powerhouse for world accounting and this must be reflected in its governance structure. Whilst we fully acknowledge the IASCF's achievements to date in reforming its governance structure, notably the introduction of the Monitoring Board, there are a number of issues which still require action:

- the geographic composition of IASB board members: there should be a greater link with the countries that actually apply IFRS;
- proper due process: the importance of consultations, due process and feedback should not be underestimated; and
- a balanced Board with members with more practical experience and not just theoreticians.

As the largest user of IFRS, we in the EU need to ensure how our views on accounting are prepared and communicated. I welcome the fact that EFRAG is coming of age, providing the Commission with technical advice on endorsements and now has a new structure, a new supervisory board and more staff which will equip it to be more proactive and work constructively together with national standard-setters.

Our stakeholders too need to make their voice heard. I am particularly pleased to see that recently, user groups, such as the Corporate Reporting Users Forum and the Chartered Financial Analysts institute (CFA) are doing just that.

Clearly the IASB cannot do its job properly if it does not have the necessary resources. A stable source of public funding would make it more accountable. We in the EU now have an initiative to provide the IASB with some financial support. I am pleased to announce that only yesterday, both the Council and the European Parliament were able to agree to our funding proposal. The idea is that the funding we provide would be conditional upon further concrete improvements in governance. We would like to see other major jurisdictions set up similar funding arrangements.

ACCOUNTING ISSUES RELATING TO THE CRISIS

Even though accounting rules did not, of course, cause the crisis, it is right to reflect on their role. In particular, we have to ask whether these rules accelerated the crisis and/or are now continuing to aggravate it. This coupled with what we perceive as a lack of flexibility on the part of the IASB to adapt or react rapidly is something on which your views are sought today. Furthermore, accounting rules should not be seen in strict isolation from prudential rules and other reporting requirements.

Tomorrow we will have an in-depth discussion on the scope for improvements in the short, medium and long term. But I would reiterate that such changes should only be done at the international level. Unilateral changes at national or regional level far from improving things, could actually make things worse.

The IASB should accelerate work on crisis related issues and come forward with technical solutions in time for the preparation of the 2009 annual accounts, in particular concerning impairment. We also note the recent amendments to US GAAP and resulting concerns that IFRS users could now be at a disadvantage. I must add that there is growing concern among Finance Ministers at the perceived slowness of the IASB in responding to the systemic crisis we have endured. In Prague last month and again in Brussels this week, many Ministers have complained about what they see as an 'over-academic' approach to standard-setting, which many see as 'out of touch' with today's reality. The IASB needs to show they understand these concerns and can take the steps necessary to address them quickly. Otherwise the progress towards global accounting standards is going to be called into question.

I would now like to move on to the use of "fair value" and "loan loss provisioning."

On fair value, my views on this are well known. Some degree of flexibility is needed especially on where and how to apply it. I am very encouraged that the IASB has announced that IAS 39 will be revised fundamentally to simplify the standard and to address known shortcomings and that this exercise will be finished this year.

As to loan-loss provisioning, this has served many banks well in the past and I would now like to see it used more broadly. A system that introduces significant counter-cyclicality, requiring banks to build up more substantial buffers in good times so that they can let them run down in bad times, makes obvious sense. It is true that there are several models on the table (e.g. dynamic provisioning, economic cycle reserve, expected loss approach) but we need to focus on the key objectives. The first is how to ensure that full account is taken of the credit risks involved in the business sector in which the entity is operating, and, secondly, how to balance the accounting and prudential rules that apply. I am extremely pleased that the IASB and FASB have already started discussing these ideas in their Financial Crisis Advisory Group and also with banking regulators. Again, this is a top priority for us.

THE FUTURE DIRECTION OF ACCOUNTING

We also need to reflect, more widely on the current reporting model, and how financial reporting will best serve our needs in the future.

The IASB is already working on a longer term project that will change some aspects of financial reporting – presentation of the financial statement for example. However, putting together a report based solely on financial information might not be enough for tomorrow's stakeholders, anymore than these reports helped today's stakeholders spot the risks that led to the current crisis. Does the financial report help those that run the business know the risks they and the business are facing?

CONCLUSION

If they are truly to serve the needs of stakeholders, accounting rules can never be frozen in time. Any action we take in this area must be done with the prime purpose of strengthening financial reporting for the future and to enhance financial stability.

Let us have an open-ended discussion but also realise that, ultimately, what we all want is for an independent standard setter to come up with the best technical solutions for our stakeholders to help us recover in time and to better equip us for the future.