

Tweedie's best of breed

With the world's largest capital market toying with switching to IFRS, Sir David Tweedie has much to feel pleased about. He tells **Lesley Bolton** about the IASB's bumper 2007, and looks ahead to 2008

Absolutely brilliant, superb news' is how a jubilant Sir David Tweedie describes the US decision to end reconciliation to US GAAP for foreign companies a year sooner than expected. It's always been the holy grail for the inimitable chairman of the International Accounting Standards Board, who's been at the helm since 2001.

But it's not the only feather in the cap for the Scot who is helping to make the vision of a global set of reporting standards a reality. Something of a watershed year, 2007 also saw the 108th country sign up to International Financial Reporting Standards. And more are queuing up behind – Canada, Israel, Chile, Japan are waiting in the wings. 'We reckon by about 2011 there'll be 150 – all the major economies,' he announces triumphantly.

Not only that, but the world's largest capital market, the US, is on the verge of coming on board – also by 2011, hopes Tweedie.

'Six years ago, when we started, if someone said, "Describe where you'll be in 2007", I wouldn't have described this. This is much, much better than we thought, and it's happened much, much faster – and that's indicative of the markets and globalisation in general.'

Getting rid of reconciliation has been 'our absolute priority, the reason being that so many countries are willing to sign up to IFRS if they can get access to the US markets without one. It's something this organisation and its predecessor [the International Accounting Standards Committee] have been working at for 12 years.'

He notes the massive sea-change in US attitudes to IFRS, which has led to the US 'targeting itself' in considering allowing domestic companies to switch to IFRS. The US Securities and Exchange Commission issued a concept release last summer and has recently held roundtables to collect feedback. 'Major companies have

got IFRS research units set up in the US saying, "What's going to happen? What do we have to do?" It's a huge change, a big, big difference.'

Assault course

A thick skin has certainly been one of the prerequisites of the job over the past seven years. Tweedie has run an assault course of criticism over the past few years: IFRSs make accounts harder to understand (finance directors); the IASB is kowtowing to the US over its convergence programme (EU); IFRS 8 on segment reporting ignores the needs of developing countries (a host of critics including the Tax Justice Network).

Tweedie is robust in his rebuttals.

The recent ICAEW study of IFRS compliance conducted at the behest of the European Commission found widespread agreement that IFRS has made financial statements easier to compare across countries, across competitors within the same industry, and across industry sectors.

'Europe's gone very well. The feedback is that the markets now have more information than ever before, and some of the horror stories and disasters that people expected didn't happen,' he says.

The convergence programme with the US Financial Accounting Standards Board (FASB) was essential to guarantee a reasonable timetable to ending the need for reconciliation to US GAAP.

'We'd already started in 2002 to remove differences between IFRS and US GAAP, but it was taking too long and that's why FASB, ourselves and the SEC – the European Commission came in later – set up the roadmap to ending the reconciliation requirement. The agreement with the SEC was that we wouldn't try and have identical standards. Where we could, we would fix them by saying, "We've got different principles here, we think yours [standard] is right, so why don't we pick up





In the hotseat **Analysis**

what we have to pick up but no more, and add it to our standard?”

As Tweedie put it to a US Senate sub-committee in October last year: ‘Accounting standard-setting is a field of international cooperation in which the US, through the FASB and the SEC, is encouraging a “best of breed” approach to regulation and is improving the development of international capital markets.’

The adoption of IFRS 8, which allows listed companies to segment their reporting according to organisational divisions rather than by geographic region, which is based on the US standard, Tweedie defends as the expedient answer. ‘The standard was already very popular with analysts. More segments were being reported, management liked it because it was quicker – you don’t have to run a separate system for segments – and we had a lot of support for it.

‘And so it wasn’t a question of changing our standard, we just had to lift it. Now we could have spent three years improving the US standard but that wasn’t the objective. Our objective was to get rid of this reconciliation and it was a case of: is theirs better? Yes. Will it improve ours? Yes. Take it.’

He adds: ‘That’s the only time we’ve done it. But of course people say, “It’s US GAAP coming.”’

The IASB will take another look at the standard once it has been running for two years, and Tweedie is adamant it will be looked at again if there’s a problem.

Critics of the IASB have pointed to other areas, such as work on the conceptual framework, where, they say, the IASB ignores the experiences of continental Europe. It’s another criticism strongly denied by Tweedie. ‘We’re spending a lot of time on some European issues. In fact I hear criticism that we’re spending too much time on European issues.

‘The fact is, when you look around the world, Europe has a say, Australia has a say, Asia has a say, Japan has a big say – lots of people have says and so we can’t let one continent have proprietorial rights.

‘We have to just genuinely find out what we think is the right answer and go for it.’

Knowing who to speak to

Communicating with stakeholders is one area where Tweedie believes the IASB has made improvements. ‘I think we’ve got better at identifying who we should speak to. It’s harder doing it internationally than it is on a national basis. Here [in the UK] we see the 100 Group of finance directors, analysts, investors, the big firms, and so on, which is fine. But take 108 countries, and multiply that by four meetings each year; you can’t cope.

‘So we want groups – European business, European analysts, American business, American analysts, and so on. We go to the regions and try and organise meetings, but always the problem is, who do you talk to? We’ve learnt our lesson, because you get people coming forward who say they represent industry X, but then industry X repudiates them.’

Part of the IASB’s difficulties come with being such a

Tweedie on....

IFRS and private companies

'The big companies going private, I think, should be hit with a full set of standards. And non-listed companies – big ones that have an effect on the economy – I would make them use full IFRS. Simplified standards with less disclosure are not appropriate for that type of company.'

(See 'Size matters', Accountancy, December 2007, p82)

Pensions


'We're bringing in an FRS 17-style standard, but getting rid of one or two of the problems with FRS 17.'

Leases

'Most leases are liabilities: you can't get out of it, so most will go back on the balance sheet.'

Financial instruments

A discussion paper on a replacement standard for IAS 39 is due in the first quarter. 'It will be very much a discussion paper that will say, "Here are the problems, here are potential solutions, what do you think?" It won't be, "We think it should go this way".'



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transparent organisation, says Tweedie.

According to the charity One World Trust's 2007 *Global Accountability Report*, the IASB has the best developed external stakeholder engagement capabilities among 30 of the world's most powerful organisations. It also tops the global rankings for stakeholder participation.

'We are probably the most transparent organisation on earth, which is both a blessing and a curse. We can't have five board members without opening the doors and a cast of three probably bringing them in. We have to meet in public whatever we do. We also allow staff members to fly kites,' says Tweedie.

One particular kite Tweedie wishes hadn't been flown was over the future of the bottom line, part of the reporting performance projects, which caused alarmist reporting in the press. But, exclaims Tweedie, it was merely a draft paper that someone put up, and 'suddenly, poof, it has gone everywhere – and that's the problem with transparency. When the discussion paper comes out you will see that some people think we should get rid of net profit but there are also alternatives that say no.'

The same goes for fair value, he says. 'It doesn't matter how often you deny it – until people see the paper, they don't believe you. 'We're not putting fair value on everything. What have we actually introduced? Share options. Well what else can you do with share options, you have to value a share option for goodness sake. That's what it's worth to the person who gets them.'

There will be plenty more debate and brickbats this

year, no doubt. It's a meaty year, with an agenda packed full of major papers and exposure drafts due out on hefty topics such as pensions, leases, financial instruments, revenue recognition, financial statement presentation, income tax and consolidation.

Brand issue

For Tweedie, the biggest threat to global standards is the 'brand issue', where countries say they are fully-IFRS compliant when in fact they are not. The problems come where countries make local variations to IFRS, such as the EU's IAS 39 carve-out.

'That can weaken the whole thing. And that's why we're pretty adamant we want people to be identified if they're not using full IFRS.'

He wants auditors to only state that accounts are IFRS compliant if there is full compliance. 'In that way if there's no statement, then you have to be suspicious. Call it in your own name and keep ours out of it.'

Women on top at the IASB

Unlike the balance in many other organisations, the International Accounting Standards Board can boast that 60% of its technical staff are women. A total of 27 nationalities are represented among the staff and board (including secondees). Sir David Tweedie says the IASB is a very flexible place to work and one where talent is rewarded.

The board began operations in 2001. It is funded by contributions collected by its trustees, the International Accounting Standards Committee Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations.

The board's 14 members (12 of whom are full-time) are drawn from nine countries.

Tweedie's four tests for a good principle-based standard

1. Is the standard written in plain English? (This is also important to allow easy translation of the standards.)
2. Can the standard be explained simply in a matter of a minute or so? If not, why does it take longer? (Put another way, can only specialists understand it or can most accountants use it?)
3. Does it make intuitive sense?
4. Do managements believe that it helps them to understand and describe the underlying economic activity?