Commissioner McCreevy Introductory speech to meeting with the Hundred Group of Finance Directors

London, 22 March 2007

International Financial Reporting Standards (IFRS)

Introduction

It is a pleasure to meet you today. The Hundred Group is a long-standing representative of the UK's largest companies, whose contributions in the accounting debate have proved to be significant and useful. You are a trusted interlocutor of the Commission and I am delighted to have the opportunity to discuss with you International Financial Reporting Standards (IFRS) and their implementation in the European Union (EU).

I will focus in my introductory remarks on accounting standards. I know you are interested in other subjects, such as corporate governance and auditing issues, and I would be happy to address these during our discussions.

Future direction of IFRS

The implementation of IFRS in 2005 has been a challenge for preparers of listed European company financial statements. I am pleased to see how positively companies have responded. And I think that the significant investment you have made is beginning to pay off.

I understand how significant that investment has been. The Commission has therefore insisted on a period of stability to allow all the parties involved - companies, auditors, investors and regulators - to absorb and digest the changes required by IFRS. The IASB has responded and publicly committed itself to have no new standard which will be applicable before 2009.

Meanwhile, we need to assess consistency in the application of the existing standards so that investors and regulators can have confidence in the quality of IFRS financial statements, regardless of where they are prepared. As a principles-based set of standards, IFRS is more relevant for global capital markets and provides more freedom and flexibility than rules-based standards. But, at the same time the different traditions and accounting approaches in Member States make consistent application of IFRS in the EU a major challenge. All of us - preparers, users, auditors, national standard setters and regulators – have a role to play in this.

The Commission welcomes the various steps already taken by CESR (Committee of European Securities Regulators) to ensure an EU wide approach. The Commission has also set up an informal “Roundtable” to assist. This Roundtable is a forum where all interested parties can discuss practical application problems relating to IFRS. Issues of widespread concern can, if necessary, be referred to IFRIC for interpretation. However, it is clear that we do not want an EU body providing interpretations and guidance. This runs counter to the whole philosophy of worldwide principles-based standards.

IASB/FASB convergence agenda

Consistent interpretation is also important for our efforts to convince the US that they should remove their reconciliation requirement. The IASB/FASB convergence agenda also contributes to this objective. However, I want to be very clear about one thing: convergence should not result in exactly the same standards. Differences should be narrowed down, so that at the end of the day, investors can understand financial statements prepared under the different frameworks. Christopher Cox, Chairman of the SEC, agreed on this point when he said to me on 6 March 2007 at the SEC Roundtable on IFRS: *"We do not expect to see total convergence or even a specific level of convergence before eliminating the reconciliation requirement"* and added *"IFRS and US GAAP would someday compete freely in America's capital markets"*.

My firm view is that the principles-based nature of IFRS must be maintained. The convergence agenda must not be used to introduce US rules-based GAAP by the back door. In order to try and ensure a balanced evolution, we are insisting on proper consultation on the convergence programme and projects between the IASB and the FASB. We have made it clear that joint convergence projects must be subject to full due process with all stakeholders. For example, we have noted that on fair value measurement, the FASB issued a final standard before the IASB has completed its own consultations. The IASB has now issued its own discussion paper and attached to it the published version of the FASB final standard. I can well understand that this gives rise to serious questions about just how "joint" the convergence programme really is. To my mind, these kind of situations must be avoided in the future. In the meantime, I can only encourage you to respond to the IASB discussion paper in a clear manner.

At the recent SEC Roundtable on IFRS, I also pointed out that any changes to existing standards must be introduced in such a way that there is a stable platform of rules and that users and preparers can learn to use them in an orderly fashion.

SEC review of IFRS financial statements of non-US listed companies – equivalence issue

In the short-term we need to move to mutual recognition and equivalence of accounting standards across the globe. The Commission has postponed the equivalence decision for US GAAP and some other GAAPs until 2009. Thus, equivalence timetables are aligned on both sides of the Atlantic, which will put pressure on the SEC to accept mutual recognition.

I welcome the continued political level commitment of the SEC to the Roadmap on mutual recognition, which Chairman Cox confirmed to me when we met on 6 March. It is now important that it is followed by practical steps. The CESR - SEC work plan from August last year is a positive sign. Recent SEC staff remarks are also appreciated, for example the speech of John W. White on 15 January, stating: *"The SEC is not seeking to dictate interpretations of IFRS"*.

In general, initial feedback received from the SEC review of IFRS financial statements of European companies gives us the impression that the SEC is using its best efforts to remain in line with this political commitment.

US authorities confirmed at the SEC Roundtable on IFRS on 6 March that the SEC's objective in this exercise is to ensure that IFRS is being applied consistently, faithfully and transparently. They explained that SEC staff's comment letters are intended to gain a better understanding of how IFRS is being applied in practice. I know that you are concerned, for example, about SEC staff's requests in comment letters to back up judgements with reference to "authoritative literature". We will raise this with the SEC and encourage them to be more pragmatic.

Practical day-to-day cooperation between SEC and CESR should speed up the IFRS learning process. We will be keeping a careful eye on how all this evolves. And I would be grateful if you could keep my staff abreast on a regular basis of how you see developments.

Conclusions

To conclude, regulators in the US and the EU must – and effectively are managing to - deepen their cooperation to ensure consistent application and enforcement of accounting standards, while building confidence in each other and respecting each other's views and approaches. Removing reconciliation requirements on such a basis will create a win-win situation with better access to funding, lower cost of capital on both side of the Atlantic. This is a prize worth having.

Thank you.

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