

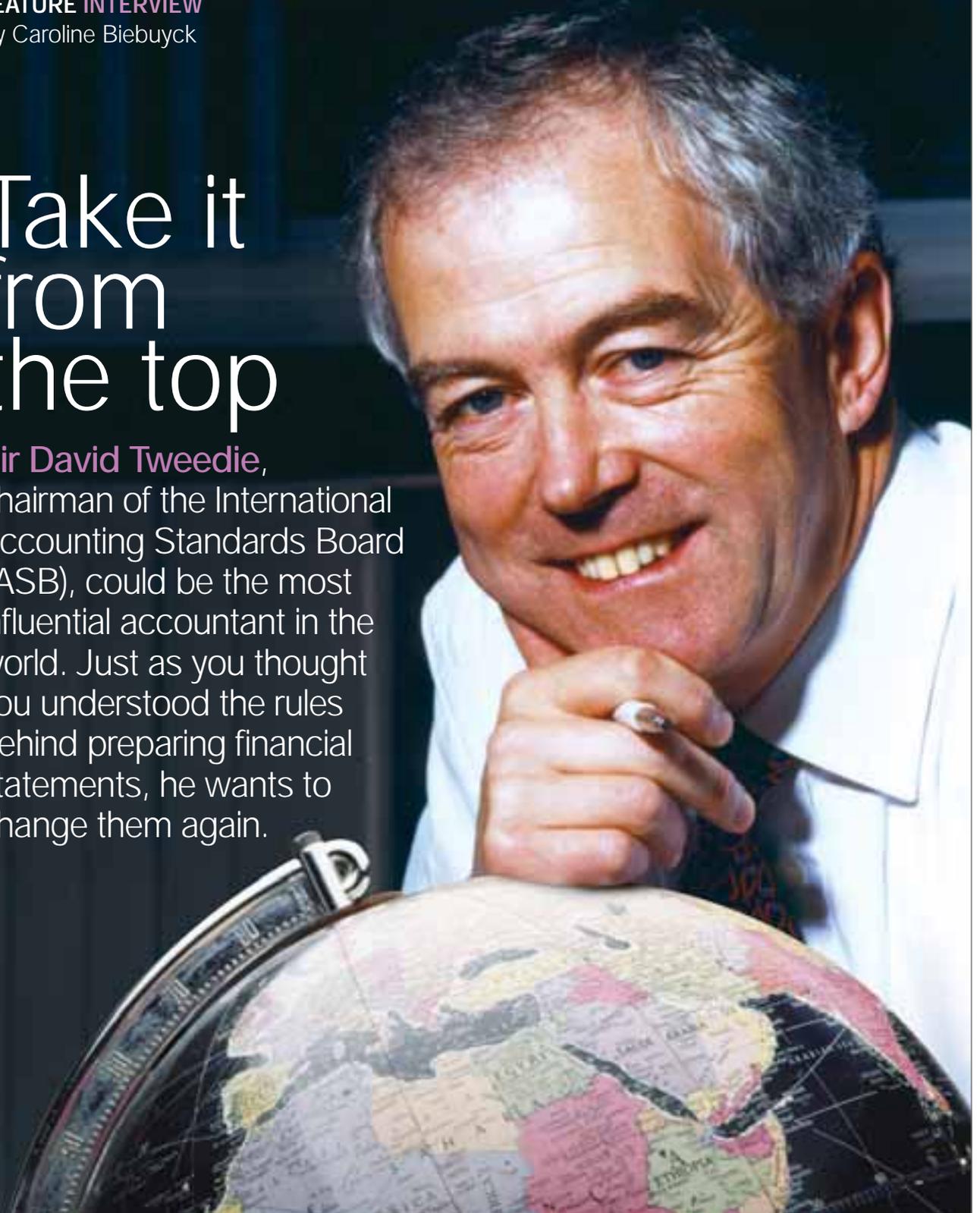
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FEATURE INTERVIEW

By Caroline Biebuyck

Take it from the top

Sir David Tweedie, chairman of the International Accounting Standards Board (IASB), could be the most influential accountant in the world. Just as you thought you understood the rules behind preparing financial statements, he wants to change them again.



“People are sick of change, but we’re sick of it too. I believe in what we’re doing. Getting simple standards accepted that are used all over the world is going to help many countries by making it easier for people to invest in them.”

It has been a tough few years for Hong Kong’s accountants. The foundations of the profession have shifted to meet a whole new set of accounting standards. The benefits were clear – a global set of standards for a global business world. From last January, Hong Kong became one of 95 jurisdictions to use standards based on the international blueprints of the IASB.

But if you thought it was time to relax, think again: accounting standards are likely to change again over the next few years – and probably more than once. If the idea leaves you cold, take comfort from the fact that the man responsible feels your pain.

“People are sick of change,” acknowledges Sir David Tweedie, chairman of the International Accounting Standards Board (IASB). “But we’re sick of it too.” So why is he pressing ahead for more revolution in the standard-setting world? “I believe in what we’re doing,” he says. “Getting simple standards accepted that are used all over the world is going to help many countries by making it easier for people to invest in them.”

When he spoke at the 2002 World Congress of Accountants in Hong Kong, Tweedie said that the accounting profession would “get the standards that it deserves.” Mentioning this sets him off on his personal mantra – keep things simple.

“Standards are getting so complex they have to be interpreted by specialists,” he complains. “That is all wrong. We have to write standards that apply to the vast bulk of the profession, not just technical partners. Everyone’s asking for more guidance, which leads to more complex standards. The challenge we’re throwing out to the accounting profession is this: if we simplify the standards, can you use your judgement? And that’s what I mean by the profession getting the standards it deserves.”

Smoothing out standards

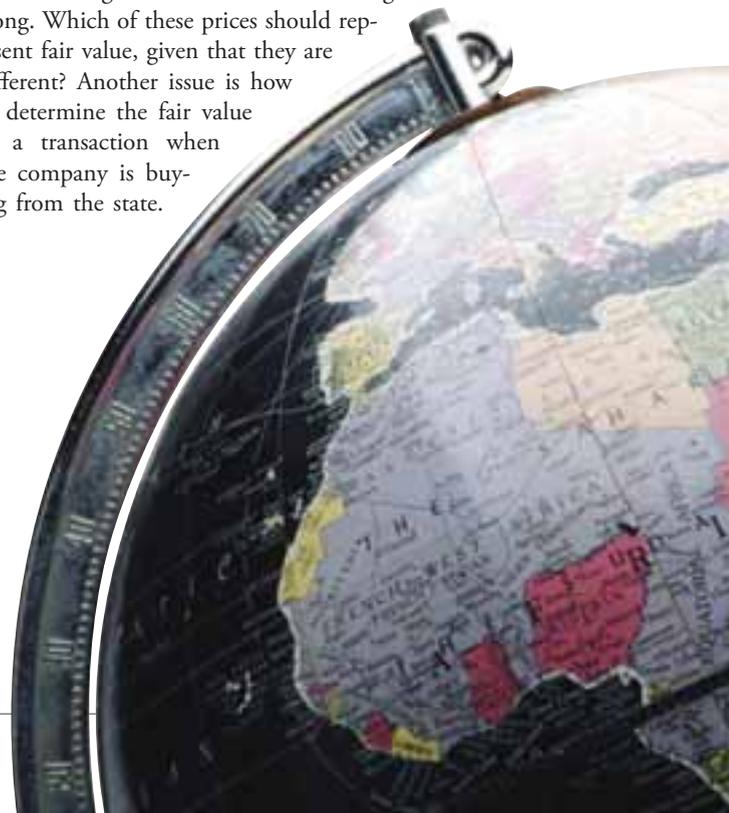
The IASB is currently bringing economic powerhouses using other accounting practices into the IAS fold. When Tweedie visits China this month, he will meet members of the Chinese government to discuss issues arising from the convergence of

Chinese and international standards.

Tweedie is well known for sticking to his guns – “some people would call me bloody-minded” – and being a tenacious negotiator. Perhaps surprisingly for someone with such a tough reputation, he insists that the final solutions will depend on who has the most appropriate ideas: in this case, the Chinese or the IASB. “That’s how we’re approaching the convergence issue – by asking who has the best answer. It’s not about pride of ownership.”

The Chinese negotiations have thrown up several issues that the IASB has not had to deal with before. What happens when the realities of China’s unique economic system differ fundamentally from those of regular market economies? “There could be several grounds for this, some of which we’ve never thought about,” Tweedie admits with a certain amount of embarrassment.

One of the problems pointed out by Ministry of Finance officials recently concerns share valuations. There can be two markets trading a company’s shares, for example one in Shanghai and the other in Hong Kong. Which of these prices should represent fair value, given that they are different? Another issue is how to determine the fair value of a transaction when the company is buying from the state.



▶▶▶ IFRS: The next step

Sir David believes that new International Financial Reporting Standards (IFRSs) will make life simpler for accountants, as they gradually replace the older – and often longer – International Accounting Standards (IASs). 95 countries now require or permit the use of these IASB standards.

Number of countries converged by February 2005		Notable countries and jurisdictions
IFRSs required for all domestic listed companies	61	All European Union (EU) countries, South Africa
Standards are virtually identical but defined as national or local GAAP	5	Australia, Hong Kong, New Zealand, Philippines, Singapore
IFRSs permitted, or required in limited circumstances	29	China, Russia, Switzerland
IFRSs not permitted for domestic listed companies	33	US, Canada, India, Japan, Mexico, South Korea, Taiwan, Thailand

“These just aren’t issues in the economies we’re used to dealing with,” Tweedie recognises.

Bringing the US on board

But other economies such as the United States have also been challenging. If you think this sounds familiar, it is. This had been a sticking point for many years, and was the subject of intense political bickering for much of the 1990s. Tweedie deserves

much of the credit for reaching the first stage of a solution back in 2002, when the IASB and the

US Financial Accounting Standards Board (FASB) agreed to work on aligning their standards.

Three years later, only a

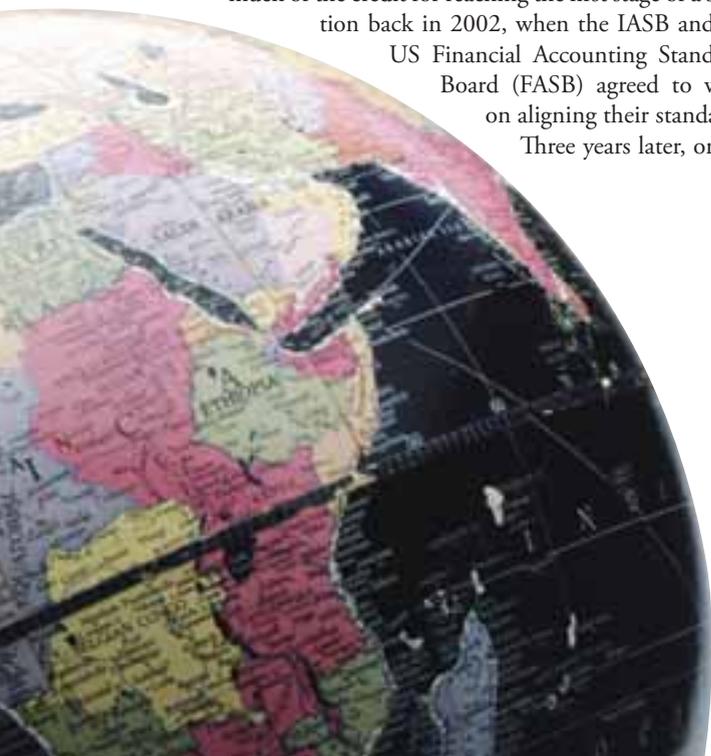
few standards have been converged. “At this rate it will take us about 10 years to get all standards in line,” he says.

As a result, he’s proposed a fast-track approach, concentrating on the most important issues only. The first step would be to reconcile international and US standards.

In some cases, both organisations have standards, but “neither of them works properly” says Tweedie, citing leases as an example. It’s not worth reconciling these, he says, adding “It’s like putting a sticking plaster on a corpse. We’re proposing to the Securities and Exchange Commission (SEC) that there’s mutual recognition of both our standards, provided we have a joint project to replace them. The alternative would be to delay the project until we have a complete reconciliation – which is a complete waste of time. We want to get rid of the big differences, but we want to do it over the next three to four years.”

US accounting standards are famous for laying out detailed rules. Tweedie, on the other hand, is a well-known advocate of the principles-based approach. Is it really possible to reconcile these contrasting philosophies?

He thinks the new standards will mark the point where the real debate starts. “It may be that the US says ‘we need lots of guidance.’ Well fine – put it in an appendix. We suspect that a lot of auditors will go to the US standards and head for the appendix. But the fact is that you won’t have to under international



▶▶▶ Tweedie vs FASB: Issues to be ironed out



	IASB	FASB
Upward revaluation	IFRSs permit revaluation of intangibles, provided their fair value can be determined.	US GAAP does not permit upward revaluation.
Research & Development	IFRSs require different treatments for research costs and development costs. In-process R&D may be treated as goodwill.	US GAAP requires immediate expensing of most R&D costs, with some exceptions for software development costs.
Inventories	FIFO is still preferred throughout much of the world.	LIFO is the most widespread approach in the US.

standards – you will be able to use your judgement.”

This convergence will, however, mean yet more change for the world’s weary accountants. Tweedie sympathises, but points to the light at the end of the tunnel. “If you want to list in New York it would mean you can list on the same standards that you use in Hong Kong. It would also be better for US investors coming across to invest in Hong Kong because the standards will be virtually the same.”

A solution for SMEs

At the other end of the spectrum, welcome change is in sight for preparers of small company accounts. The IASB has been debating Small GAAP for some time, and it issued a discussion paper in June 2004. The IASB working group will meet to debate feedback in October 2005 and an exposure draft should follow about six months later.

Tweedie hopes that the result will be a distinct suite of standards for small enterprises, contained in a convenient booklet. “This should be much shorter than the full set of standards. But they’ll be based on the main standards, so that if the company grows, it won’t face too much change in its accounting.”

The good news for Hong Kong companies is that they are well represented in these discussions. The IASB recently expanded its working group on Small GAAP, to gather more views from the preparers and users of SME financial statements. One of the 13 newcomers is from Hong Kong, taking Hong Kong’s overall representation to the working group to two out of 31.

Tweedie is a regular visitor to China, going at least once a year since 1997. The frequent contact has left him with a high opinion of the Ministry of Finance officials he has met, describing them as “extremely knowledgeable and extremely eloquent.”

He is also pleased to be coming to Hong Kong again. “It’s full of energy and a great place to be. The city has picked up international standards very quickly and is one of the leaders in the convergence process. We’re very grateful for that.” A*

Sir David Tweedie is the keynote speaker at the Hong Kong Institute of CPAs’ first Financial Reporting Standards Forum, being held at the JW Marriott Hotel on 9 June.