

Prepared statement of Bertrand Collomb, Vice Chairman
of the International Accounting Standards Committee Foundation,
before the Open Coordinators Meeting of the Economic and Monetary Affairs Committee of
the European Parliament

10 July 2007

Madame Chairman, Committee Coordinators, we welcome this opportunity to appear before you today to discuss our common interest in accounting and the development of International Financial Reporting Standards (IFRSs) by the International Accounting Standards Board (IASB). We are here on behalf of the IASC Foundation Trustees, the body that oversees the work of the IASB. I serve as Vice Chairman of the IASC Foundation, and Max Dietrich Kley is the IASC Foundation Trustee from Germany. Mr Kley has been active in advancing our new oversight mechanisms and establishing a new financing system in Europe.

I intend to keep my statement brief in order to give the Committee an opportunity to raise any points that it may wish with us. It is also the Trustees' intention to have a continuing dialogue with the Committee and to encourage increased interaction between the Committee and the IASB as well. I understand that David Tweedie recently appeared before the Committee and has agreed to come on a more regular basis in the future. Our aim is to identify issues of concern to the European Parliament at the earliest stage possible, in order to assure you that the IASB's due process is working properly.

This increased dialogue will be beneficial to both our organisation and the ECON Committee in helping to understand issues facing our organisations and to advance our joint aim to develop a set of principle-based accounting standards that are used internationally.

Enhancing the Trustees' oversight role

This meeting is timely, because we have recently had a number of significant developments related to the Trustees' oversight role and to convergence on the standard-setting front.

The IASC Foundation is aimed at protecting the independence of the IASB's decision-making process, and the Trustees—who represent a broad spectrum of interests and regional perspectives—are responsible for appointing members of the Board, for assuring adequate financing, and for general oversight. Before I address our financing and selection responsibilities, I will address our oversight function. The Trustees ensure that the IASB complies with agreed procedures and takes into account the wide range of opinion on technical matters. Since the completion of the first Constitution Review in July 2005, the Trustees have focused their attention on defining and enhancing oversight responsibilities. We believe that the Trustees' involvement in the oversight of the IASB's work will better enable the IASB to reach conclusions that take account of the wide range of interests affected by the standard-setting process, while providing confidence in the IASB's operating procedures.

Last year, the Trustees established a framework to govern our oversight efforts. After the Trustees' meeting in April this year, we posted this framework and a report on our

progress on the IASC Foundation Website. I attach that report with this written statement for the Committee's information.

An important element of the strategy of having active Trustee understanding and engagement in the IASB's work has been the creation of the Trustees' Procedures Committee, on which I serve. This committee is tasked with reviewing the IASB's compliance with its due process procedures and approving the selection of working group membership. Beyond the formal consideration of the IASB's agenda, the Trustees' Procedures Committee will now meet the IASB at least twice a year to review the IASB's work and to reflect the views of key stakeholders. The Trustees' Procedures Committee will then report back to the full Trustees during the public sessions of the Trustees. The first such meeting will be held in September 2007.

The Trustees are also playing an increasingly visible role in meeting stakeholders throughout the world. Our long-term aim is to identify those stakeholders throughout the world with whom the Trustees, along with members of the IASB, should have contact and to have a mechanism to receive input. Obviously, members of this Committee are one of these groups. This process of engagement will evolve over time, and we would welcome any suggestions on mechanisms for achieving this aim.

This emphasis on enhanced oversight and improved due process has led to a number of substantive changes related to the IASB's due process. For example, we published due process handbooks for the IASB and the International Financial Reporting Interpretations Council (IFRIC). The IASB now provides two formal comment periods on major standards, each lasting a minimum of 120 days. With the 2005 amendments to the Constitution, the IASB now uses a "comply or explain" approach for all non-mandatory aspects of its due process. Observers of both IASB (and IFRIC) meetings can listen to discussion either in person or over the Internet, and the papers are available to the general public. As to the IFRIC, we have disbanded the Agenda Committee in an effort to improve transparency.

In April, the Trustees agreed that the IASB should develop feedback statements when issuing standards. Since then, the Trustees have begun working with the IASB to develop a practical approach to establishing impact assessments, one that will take into account the range of consultations and field work used in developing a standard.

At last week's meeting in Madrid and at the suggestion of the IASB, the Trustees also approved a proposal to require post-implementation reviews. Under the new procedure, the IASB would review entirely new IFRSs, major interpretations, or major amendments to existing standards after two full years of implementation. The review would focus upon important issues identified as contentious as part of the development of standards and any significant unexpected costs or problems encountered by preparers in implementing the provisions of the standard or by users in analysing the information. This requirement will be in place for any new IFRSs or major amendments to existing standards and major interpretations adopted by the IASB with an application date beginning on or after 1 January 2009. Significantly, the IASB will undertake reviews on IFRS 8 *Operating Segments*, IFRIC 12 *Service Concession Arrangements*, and any standard to emerge on the business combinations project.

I know that the Committee has taken a particular interest in the composition of the Trustees, the IASB and the IFRIC. As you know, we reach conclusions on nominations

only after advertising publicly and contacting interested organisations for recommendations. In the case of the Trustees, we must also consult the Trustees Appointments Advisory Group before reaching any decision on the selection of Trustees. Jean Claude Trichet, Mario Draghi, and Rodrigo de Rato y Figaredo are all members of that Committee. I know that some of the ECON committee members have expressed views about possible alternatives for the Trustee appointments process. We would welcome your input on this issue. The next Constitution Review, which is scheduled to begin next year, offers the opportunity to consider amendments to the existing structure.

In appointing Trustees, and members of the IASB and the IFRIC, we are aiming to ensure the appropriate balance of skills and backgrounds. Of the 22 Trustees, seven are from Europe, six from Asia-Oceania, four from the United States, and one each from Africa, Canada, Latin America, and the Bank for International Settlements. We are in the process of identifying a European Chairman.

For IASB members, the Trustees are placing an increasing emphasis on practical experience with IFRSs. Jan Engström, the former Chief Financial Officer of Volvo Group, and Philippe Danjou and Zhang Wei-Guo, who formerly served as the Chief Accountants of the French and Chinese securities regulators respectively, are recent additions to the IASB. We also are in the process of finalising the appointments of a European preparer and leading investment and accounting analyst to replace retiring members. The balance of the IASB is beginning to change significantly from the original body.

You are also aware that the Trustees recently appointed two preparers from Europe to the IFRIC. We have proposed an expansion from 12 to 14 members in order to get more practical experience with IFRSs.

Finally, on financing, we are making progress towards the objectives that we established and were endorsed by the European Finance Ministers in July 2006. Characteristics of the new scheme for 2008 are:

- **Broad-based:** A sustainable long-term financing system that is aimed at expanding the base of support to include major participants in the world's capital markets, including official institutions, in order to ensure diversification of sources.
- **Compelling:** Although it is unlikely that in most jurisdictions the relevant authorities could implement the necessary legislation or regulations to impose a mandatory financing system, we are attempting to create national systems that carry with them enough pressure to make free riding more difficult.
- **Open-ended:** The financial commitments should be sustainable and not be contingent on any particular action that would infringe on the independence of the IASC Foundation and the IASB.
- **Country-specific:** The funding burden should be shared by the major economies of the world on a proportionate basis, using Gross Domestic Product as the main determining factor of measurement. Each country should meet its designated target in a manner consistent with the principles above.

We can report that we have made good progress towards these objectives and will shortly publish a progress report on the IASC Foundation Website. In both of our countries, we have established a mechanism to raise funds from a broader base of listed companies. The UK and the Netherlands have established a levy on listed companies. Other countries in

the European Union are working in conjunction with business, accountancy, and regulatory organisations to establish regimes. Outside the European Union, China, Japan, Australia, Switzerland, and New Zealand have all reached their targets. We also have confidence that appropriate regimes will be in place in the United States, Canada, India, Brazil, and Korea by the beginning of 2008.

Becoming a global standard-setter

The Trustees recognise the need to assure public confidence in our working procedures and to engage those affected by the IASB's standard-setting activities. Our commitment is to continue working with those interested to refine our structure and oversight responsibilities.

It is also important to keep our efforts focused on advancing our goal of creating a single set of high quality, principle-based financial reporting standards that are used throughout the world's capital markets. In the context of this goal, the IASC Foundation and the IASB have made much progress, and the European Union has been a leader in this effort. More than 100 countries throughout the world, including the 27 European Union Member States, require or permit the use of International Financial Reporting Standards (IFRSs), developed by the IASB. This number is expected to rise substantially within a relatively short time frame.

We have now witnessed a significant breakthrough with the United States. As you know, the IASB and the FASB have been working together on a convergence programme since 2002. The Trustees then supported the modified approach to convergence laid out in the 2006 Memorandum of Understanding as a pragmatic solution for achieving convergence and removing the need for reconciliation requirements. In this context, we appreciated the roadmap established by the US Securities and Exchange Commission (SEC) and supported by the European Commission.

This strategy is now paying dividends. On 20 June the SEC agreed to propose a rule to eliminate the reconciliation requirement for those companies applying IFRSs for financial statements for the calendar year 2008. This would eliminate a major cost to European and other companies listed in the European marketplace and should increase the supply of capital to European economies. Furthermore, the SEC has announced that it would publish a Concept Release, which would ask whether US companies should be able to choose to use IFRSs. To my mind, this is a sign that the momentum is behind IFRSs and a more principle-based approach to accounting, and not—as some fear—a movement towards exporting US GAAP to the international system.

The IASB has assured the Trustees that it will introduce change only when it improves the existing accounting. The Trustees and the IASB are united in the commitment that the organisation will not sacrifice its objective of developing principle-based accounting standards.

We have heard a number of concerns regarding the convergence process, because IFRS 8 *Operating Segments* is based on the US accounting standard. We respect the European Parliament's role in the adoption of IFRSs in the European Union and understand the process already under way on IFRS 8. I would like to report to the Committee that the

Trustees have reviewed the due process associated with the development of IFRS 8, and we are comfortable that the IASB consulted properly. We are also aware that the approach in IFRS 8 is broadly popular among the preparer community in Europe and is, in fact, a case where the US approach was more principle-based than the existing international standard IAS 14. Furthermore, evidence suggests that the management approach to segment reporting has led to increased disclosure and dialogue between companies and investors. The Trustees are also comforted by the fact that the IASB is willing to undertake a post-implementation review of IFRS 8 after two years of its operation.

Furthermore, we are confident that the ultimate result of convergence will be not the internationalisation of US GAAP, but improved accounting based upon an understanding of international business and accounting practices. Most of the convergence projects that FASB and the IASB have on the agenda are still in progress and will offer ample opportunity for the IASB to engage with the relevant parties and assess the impact of its proposals. The Trustees will remain engaged in the oversight of these projects to ensure that the IASB remains committed to a principle-based approach. To my mind, the removal of the reconciliation requirement will give the international effort to develop principle-based standards further momentum, and we should be careful not to do anything that might give pause on the decision on reconciliation.

The European Union with the support of the European Parliament took a visionary step when it decided not to choose a uniquely European approach to financial reporting. The result is an effort aimed at establishing an international system relevant for the evolving marketplace. Other countries agreed. It is significant that the major economies of the world are increasingly adopting IFRSs, rather than national accounting standards. Europe is already enjoying the benefits of its leadership position, with Europe attracting an increasing share of the world's capital. As someone who believes strongly in European integration and at the same time the benefits of IFRSs, it is my hope that European Union and, in particular, the European Parliament will remain the standard-bearer in promoting consistent application of IFRSs.

We, as Trustees, will continue to provide active oversight of the standard-setting process and will ensure engagement with the official and business communities. We also welcome any suggestions that members of the Committee have regarding the strategy for reaching our objective. Both Max and I look forward to hearing your views and answering any questions that you may have.