



International
Accounting Standards
Committee

167 Fleet Street, London EC4A 2ES, England
Telephone: +44 (071) 555-0565 Telefax: +44 (071) 555-0562

EFFICIENCIES IN MULTINATIONAL SECURITIES OFFERINGS: HOW TO PROMOTE INTERNATIONAL HARMONISATION OF ACCOUNTING STANDARDS

A paper presented by Eiichi Shiratori, Chairman of the International Accounting Standards Committee, at the XXI Conference of the International Organisation of Securities Commissions (IOSCO) in Tokyo, Japan, October 1994.

According to IOSCO, different national accounting requirements are a primary impediment to multinational securities offerings and other foreign listings. This impediment will be overcome, however, if IOSCO and IASC can reach agreement on mutually acceptable international standards of accounting and disclosure. Then, any company will be able to raise capital and list its shares on any foreign stock exchange with one set of financial statements that conform with International Accounting Standards.

This is a realistic objective which is attainable in the near future. World class companies from Australia, Finland, France, Japan, Malaysia, Luxembourg, Sweden and Switzerland already use financial statements that conform with International Accounting Standards to list their shares on the London Stock Exchange. Agreement between IOSCO and IASC will extend this arrangement to listings on stock exchanges such as those in New York and Tokyo which currently require companies to reconcile financial statements that conform with International Accounting Standards to local accounting standards.

An agreement between IOSCO and IASC will have many benefits. It will reduce the costs of companies that currently have to collect information for reconciliations or two sets of financial statements. Many of these companies will also find that financial statements that conform with International Accounting Standards also conform with their national requirements. An agreement between IOSCO and IASC will also benefit investors; they will receive high quality

financial statements that contain relevant and reliable information and which investors can readily understand and compare with the financial statements of companies in other countries.

In 1993, IOSCO took an important step towards an agreement with IASC. IOSCO agreed a list of core standards for use in financial statements of companies involved in cross border offerings and listings. International Accounting Standards already deal with most of the core standards. In 1993, IOSCO endorsed the use of IAS 7, Cash Flow Statements, a key component of the core standards, and began to consider whether other International Accounting Standards were acceptable as core standards. Further steps have been taken during the past year by both IASC and IOSCO.

IASC

In November 1993, IASC completed its Comparability/Improvements project under which IASC approved ten revised International Accounting Standards in which IASC had eliminated free choices of accounting treatment for like transactions and events and updated the guidance and disclosures.

IASC also made significant progress in dealing with outstanding issues in the list of IOSCO core standards. IASC issued a revised Exposure Draft on Financial Instruments and an Exposure Draft of a revised International Accounting Standard on Income Taxes. IASC has also published initial proposals on Earnings Per Share, Intangible Assets and Segment Information and commenced work on the Presentation of Financial Statements - all six topics are among IOSCO's core standards.

The current relationship between IOSCO's core set of standards and International Accounting Standards is shown in appendices 1 and 2.

IOSCO

By the middle of 1994, IOSCO completed its comparison of International Accounting Standards with its core set of standards and wrote to IASC about the acceptability of a further 24 International Accounting Standards. In broad terms, fourteen of the 24 Standards are acceptable, four Standards are unacceptable to varying degrees, and six Standards are already subject to review by IASC. IOSCO has also identified a number of so called "suspense" and "other" issues on each International Accounting Standard which it would like IASC to consider in due course but which do not block acceptance of the Standards by IOSCO.

Does this further progress mean that IOSCO is ready to endorse further International Accounting Standards at this meeting? Unfortunately not. IOSCO will not endorse further Standards, including the fourteen International Accounting Standards which it finds acceptable, until IASC has completed all the core standards to IOSCO's satisfaction.

IOSCO's approach to the further endorsement of International Accounting Standards is unsatisfactory for a number of reasons. First, it ignores the substantial improvements in financial reporting that have flowed, and will continue to flow, from the use of International Accounting Standards. It also means that the financial statements of world class European companies that conform with national requirements, European Union Directives and International Accounting Standards are unacceptable for IOSCO even though they are acceptable to domestic regulators.

IOSCO's approach is also unsatisfactory because it implies that IOSCO expects more of IASC than IOSCO members expect of their national standard setting bodies. In other words, IOSCO expects IASC to have dealt with issues that have not been, and perhaps cannot be, resolved by national standard setting bodies. So, for example, IOSCO expects IASC to have completed an International Accounting Standard on Financial Instruments before it will endorse the use of International Accounting Standards - but the SEC (an IOSCO member)

continues to "endorse" FASB pronouncements even though the FASB is a long way from completing its Financial Instruments project. Surely this cannot mean that some core Standards, such as Financial Instruments, are unimportant for domestic issuers.

IOSCO's approach also raises one other question. Should IOSCO endorse the process of setting International Accounting Standards in the same way that IOSCO members endorse the process of setting national standards? Or should IOSCO review, in detail, each International Accounting Standard? IOSCO is currently following the second approach, something which most of its members do not do in their own jurisdictions. Furthermore, IOSCO cannot endorse the Standards without the unanimous agreement of its members and some IOSCO members will give approval only if the International Accounting Standards require the same treatments that the members require in their own jurisdictions. This places IASC in an impossible position unless it allows free choices of accounting treatments, something which is unacceptable to IOSCO.

A Different Approach for IOSCO

It is time for IOSCO to adopt a different approach which recognises:

- the considerable improvements in financial reporting that have flowed, and will flow, from the use of International Accounting Standards;
- IASC's extensive due process that involves the accountancy profession, the preparers and users of financial statements, and national standard setting bodies - as well as IOSCO and its members; and
- the fact that no national standard setting body has dealt with all the issues covered by IOSCO's set of core standards.

Under this different approach, IOSCO would:

- accept International Accounting Standards as a comprehensive set of Standards;

- acknowledge that International Accounting Standards may require different treatments from those preferred by individual IOSCO members;
- endorse the process of setting International Accounting Standards rather than review each Standard in detail; and
- as an interim step, pending endorsement of the process, endorse those International Accounting Standards which it accepts and those which have recently been revised through an extensive due process in which IOSCO played an important part - this will drastically reduce the need for restatement or reconciliation by foreign issuers.

National members of IOSCO can also help achieve this different approach. They should:

- accept financial statements from foreign issuers that conform with International Accounting Standards. Some members of IOSCO already do this; they should make the position clear. Other IOSCO members should reconsider their position in order to reduce the need for restatement or reconciliation by foreign issuers; and
- accept the treatments in International Accounting Standards on specific issues particularly when domestic requirements cause problems for foreign issuers. The SEC has already adopted this approach on certain aspects of business combinations and foreign currencies in order to reduce the burdens on foreign issuers. Other IOSCO members should follow the SEC's example.

The Impact on IASC's Work Programme

The adoption of a this different approach by IOSCO does not mean that IASC will stop work on the issues covered by IOSCO's list of core standards. On the contrary, over the coming months, IASC will consider:

- proposals for the following high priority projects all of which are among IOSCO's core standards:
 - (i) Retirement and Other Employee Benefits;
 - (ii) Impairment of Long Lived Assets; and

- (iii) Discontinued Operations;
- the implications of any International Accounting Standard on Financial Instruments for existing Standards on Foreign Currencies and Investments and proposed projects on hedging and commodities;
- what action (if any) it should take in respect of three existing Standards that IOSCO finds unacceptable:
 - (i) IAS 9, Research and Development Costs;
 - (ii) IAS 10, Contingencies and Post Balance Sheet Events; and
 - (iii) IAS 17, Accounting for Leases; and
- in conjunction with national standard setting bodies, the possibility of an International Accounting Standard on Interim Reporting - the one remaining IOSCO core standard.

IOSCO's Suspense Issues

IOSCO has advised IASC of a number of "suspense and other issues" in the 24 International Accounting Standards which it has compared with the core standards. These issues include a number of proposals by IOSCO for changes to the accounting treatments in current and revised International Accounting Standards, exemptions from those Standards and the removal of certain requirements.

The existence of these issues will not block acceptance of the Standards by IOSCO but IOSCO would like IASC to consider these issues in due course. IASC will certainly do this in any review of existing Standards and the development of new Standards but, this is unlikely to take place within the foreseeable future. Furthermore, IASC is also troubled by the nature of some of the proposals that IOSCO has made in the form of the suspense and other issues.

First, the suspense issues include proposals to reinstate some of the free choices of accounting treatments which IASC eliminated, with IOSCO support, in its Comparability project. Other suspense issues advocate accounting treatments that have been rejected by IASC or support

exemptions for countries that do not like IASC treatments. Many of these proposals would lead to free choices of accounting treatment and reduce the comparability of financial statements. They run counter to the IASC Comparability project which IOSCO itself strongly supported. IASC would be particularly troubled if IOSCO endorsed accounting treatments which have been rejected during the development or revision of an International Accounting Standard.

Second, the suspense issues include proposals for an exemption from an International Accounting Standard for events and transactions not specifically addressed during the development of that Standard. This proposal sets a dangerous precedent. It means, for example, that if IOSCO applies the same approach to financial instruments, financial instruments that do not exist when IASC approves an International Accounting Standard would be exempt from that Standard. This is neither a sensible nor a wise approach and it is contrary to the approach adopted in most jurisdictions.

Third, IOSCO's suspense issues include proposals to remove the reconciliation requirements for companies which adopt the allowed alternative treatments in the revised International Accounting Standards for the valuation of inventories, changes in accounting policies and fundamental errors. IOSCO has previously argued that companies that follow the allowed alternative treatments should reconcile to the benchmark treatment - why has it changed its mind? In contrast to its approach on these reconciliations, IOSCO has proposed a reconciliation requirement for companies using the allowed alternative actuarial method in IAS 19; this is the one case in which IASC opposed such a requirement (see the Statement of Intent on the Comparability of Financial Statements). Why does IOSCO support a reconciliation on IAS 19 but oppose the reconciliations on IAS 2 and IAS 8?

Fourth, in some suspense issues, IOSCO has asked IASC to reconsider a number of issues that were considered during the Improvements project. In many cases the position adopted in the

revised International Accounting Standards reflects the preference expressed by IOSCO in meetings of the Improvements Steering Committee. Why should these issues be reconsidered?

Fifth and last, it is particularly disappointing to IASC that IOSCO has suspense or other issues on the ten revised International Accounting Standards that formed the Comparability/Improvements project. IOSCO was extensively involved in this project. It sent three representatives to all bar the first meeting of the Comparability Steering Committee. It sent at least four representatives to all the meetings of the Improvements project. IOSCO was very supportive of the aims of the Comparability/Improvements project and its representatives ensured that IOSCO's views were taken into account at every stage. IOSCO should accept all the revised Standards without qualification.

Interpretation of International Accounting Standards

IOSCO has also advised IASC that there are two International Accounting Standards for which IOSCO intends to provide additional guidance - IAS 27 (on the definition of control) and IAS 28 (on the definition of significant influence). It is inevitable that the enforcement of International Accounting Standards on foreign issuers by members of IOSCO will involve interpretations of those Standards but should IOSCO issue those interpretations or should they be left to IASC? This is an important issue that requires careful consideration but my initial feeling is that IASC, rather than IOSCO, should provide the mechanism for dealing with interpretations of International Accounting Standards. IASC will undoubtedly involve representatives of IOSCO in that mechanism as it has involved them in all its work in recent years.

IOSCO's Involvement in the Work of IASC

I would like to conclude by saying a few more words about IOSCO's involvement in the work of IASC. IOSCO has been a member of the IASC Consultative Group since 1987. IASC's

discussions with its Consultative Group are a key part of the due process through which International Accounting Standards are developed. IOSCO has also taken part in the work of IASC Steering Committees that are responsible for new or revised International Accounting Standards. IASC invites IOSCO members and IOSCO itself to comment on all IASC Exposure Drafts and Draft Statement of Principles. IASC needs and welcomes the input of IOSCO members at all stages in IASC's due process.

IASC also needs open channels of communication with the IOSCO Technical Committee, Working Party 1 and the Accounting Sub-Committee. I am particularly pleased that I have been able to establish a channel of communication with Mr Saint-Geours, the Chairman of the Technical Committee. I am also pleased that I have been able to discuss these issues with other members of the Technical Committee and Linda Quinn, the Chairman of IOSCO Working Party 1.

Another important channel of communication is between IASC's Secretary-General, David Cairns, and IOSCO's Working Party 1 and its Accounting Sub-Committee. This is the right channel for dealing with many of the issues that I have raised today and I am pleased that significant progress has been made in recent years.

It is also important that individual IOSCO members communicate with IASC Board Representatives in their countries. Over the past few years, David Cairns and I have encouraged IASC Board Representatives to contact the members of the IOSCO technical Committee and Working Party 1 in their countries to discuss all these issues.

In conclusion, I would like to propose that there should be an annual co-ordination meeting involving representatives of IASC and IOSCO's Working Party 1. This meeting would be in addition to the other forms of communication. Among other things, the meeting would provide a relatively formal means by which IOSCO can inform IASC of any issues relating to,

or concerns about, the financial statements of foreign issuers. It would also help to ensure that input on IASC projects is received on a timely basis.

Conclusion

In this paper, I have described the efforts of IASC and IOSCO to reach agreement on mutually acceptable standards of accounting and disclosure for financial statements used in multinational securities offerings and other foreign listings. I have described IASC's work and I have proposed certain changes in the approach currently being adopted by IOSCO and I have proposed an additional means of regular communication between IASC and IOSCO.

The purpose of these efforts is twofold - first, that multinational companies publish high quality financial statements that provide, on a timely basis, relevant and reliable information to investors and other users in international capital markets - and secondly, that these companies can use one set of financial statements to raise capital and list their shares on any foreign stock exchange.

If you look at the work that IASC has done and at the annual reports of world class European companies that publish financial statements that conform with International Accounting Standards, you can see that we have achieved the first purpose. We have not yet achieved the second purpose - that is up to IOSCO and I believe that it should now act quickly by adopting the new approach which I have proposed.

Appendices

1. Existing International Accounting Standards - Status at August 1994, Acceptability to IOSCO and Likely Future IASC Action
2. IOSCO Core Standards - Current Status - September 1994, Acceptability of International Accounting Standards and IASC Work Programme

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