

IASC ANNUAL REVIEW 2000

Review by Chairman and Secretary-General

The term of Stig Enevoldsen as Chairman of IASC finished on 30 June 2000. At its March 2000 meeting, the Board appointed Mr Thomas E. Jones to be Chairman with effect from 1 July 2000 and until IASC's new Constitution comes into effect. Accordingly this report is presented by Mr Jones and the Secretary-General.

Purists with an analytical turn of mind take the view that the new millennium begins on 1 January 2001. Others, perhaps with a more romantic inclination, prefer to treat it as having begun on 1 January 2000. Whichever view is taken, the advent of the new millennium coincides with very pleasing progress towards achievement of IASC's objectives and it is agreeable to think of the new IASC – reshaped by the far-reaching changes to its Constitution – as being born at the turn of the millennium.

A series of events marked out the year 2000 as a special one. Some will see the decision in May by IOSCO's Presidents' Committee as the most important. IOSCO resolved to recommend to its members that they accept financial statements complying with International Accounting Standards for cross-border listings. The resolution recognised that national administrations might wish to impose certain additional requirements. The IOSCO decision was the result of several years of cooperative work between IASC and IOSCO. We had agreed in 1995 on a work programme to complete a core set of standards that would be the basis for consideration of endorsement. We are grateful to everyone in IOSCO who worked so hard and contributed so strongly to the success of the joint project.

The practical consequences of IOSCO's decision will take some time to become fully apparent. Almost all countries of the world – the United States and Canada are the main exceptions - already accept IAS for cross-border listings and we do not expect any diminution in that number. A key factor will be subsequent action taken by the Securities and Exchange Commission in the United States. At present, if a foreign company submits financial statements in the United States using IAS, it must produce a reconciliation of its statements to US GAAP. The SEC published a Concept Release in February 2000 seeking comments about the possibility of greater acceptance of IAS. The comment period finished in late May and the SEC staff have been analysing the comments since then and considering their next steps. The United States is currently going through a period of political transition and this may work against speedy action. However, we view prospects with cautious optimism. The SEC took a leading role in IOSCO's work in analysing our core standards and agreed with the IOSCO resolution. The wording of the resolution and our own assessment of the work that has been done in IASC encourages us to expect that the United States will move to greater acceptance of IAS. At the same time, we think that it is realistic to expect that the US will continue for some further period to require the disclosure of some additional information by companies using IAS.

IOSCO's consideration of the core IASC standards came directly out of our 1995 agreement. However, importance was added to the project by a statement late in 1998 from the G7 Finance Ministers and Central Bank Governors. G7 called on IOSCO to complete the work of evaluating our standards on a timely basis because of the importance G7 attached to having high quality international accounting standards in the interests of global macro-

economic management. G7 also called on the Basel Committee on Banking Supervision to undertake a review of our standards. The Basel Committee completed their review and announced their support for our Standards in April, slightly before the IOSCO decision was finalised. The Basel Committee's decision was important to us. IASC and the Committee established a joint working group to review certain aspects of IASC's Standard on Financial Instruments, a Standard that had been quite controversial in the banking community, and we were particularly pleased that the work of the Group made it possible for the Basel Committee to give us their support. In the process, we established an excellent working relationship with the Committee and hope very much that this will be continued.

While some people would regard the IOSCO decision as the leading event for IASC in 2000, others would first point to the proposal from the European Commission to require all listed companies in the European Union to publish financial statements in accordance with IAS beginning in 2005. This proposal, which we understand to have the support of the governments of member states, was a major step for IASC. The European Union is the most fully developed economic union among sovereign countries in any region of the world. The Union aims to secure a single market among its members and the logic of this calls for the use of one set of accounting standards: we are naturally pleased that IAS have been chosen.

The European Commission envisages the establishment of an endorsement mechanism which will actually promulgate IAS for use within Europe. Some people have expressed concern that this may lead to variations to the International Accounting Standards that are used in the EU – to a European version of IAS. This would indeed be unfortunate but we do not think it is the intention of the European Commission nor a probable outcome. We see the proposed mechanism as a means for providing input to the debates about IAS while they are being developed and also as a means for meeting the legal and constitutional requirements of the situation. We believe that IASC should take a positive attitude towards the institutions established to give effect to the endorsement mechanism and seek a close and collegial working relationship with them.

The last major event of 2000, on which we wish to comment at this stage, relates to IASC's decisions on restructuring. IASC's 1999 Annual Review explained the proposals for the new Constitution and the rationale for them in considerable detail. The IASC Board had approved the proposals in principle at its last two meetings in 1999 and it duly adopted the new Constitution by unanimous resolution at its March 2000 meeting. The new Constitution was finally brought into effect by an Assembly of Members in Edinburgh on 24 May 2000: we were particularly pleased that the Member Bodies also approved the new Constitution by unanimous vote.

BOARD MEETINGS

We held four Board Meetings during 2000. The first was in Sao Paulo, Brazil and was a noteworthy occasion because it was the first meeting to be held in South America. It was a most successful meeting in every way during which, in addition to approving the new Constitution, the Board approved a new Standard, IAS 40, on Investment Property. This Standard was the last piece of work that was required to complete the core set of standards under the agreement with IOSCO.

Subsequent meetings were held in Copenhagen in June, in Tokyo in October and in London in December. In Tokyo, the Board agreed relatively minor revisions to three Standards, those

dealing with Employee Benefits, Income Taxes and Financial Instruments. The meeting in London saw completion of IAS 41 on Agriculture. The Standard on Agriculture is an important one, even though it is dealing with specialised transactions and was not part of the core set of standards. Financial support for the work on this project was originally provided by The World Bank. IASC had been working on the project for some six years and this partly reflects the difficulty of the issues, particularly in deciding on the relative emphases to be given to fair-value-based measurements as opposed to cost-based measurements of agricultural assets. We were very pleased that the IASC Board was able to conclude its work on agriculture before handing matters over to a new Board.

The London meeting also saw approval by the Board of a statement in contemplation of the handover of its functions to a new Board. The purpose of the statement, which is reproduced in this Annual Review, was to comment on current work in progress and record some of the thinking of the Board resulting from its work on agenda items in progress and other discussions.

All of our Board Meetings were extremely successful and our warm thanks go to the Member Bodies who hosted the meetings and gave us such generous hospitality. The December meeting in London was arranged in order to ensure that IASC's work programme was developed to the state where handover to the new Board would be as efficient as possible. In addition, however, it will have been the last meeting of the present Board and the event was marked by a magnificent dinner at Goldsmiths' Hall in London where we had the pleasure of the company of six former Chairmen as well as The Honourable Peter Benson, the son of Sir Henry Benson (as he then was) the very first Chairman of IASC. We particularly thank the UK Member Bodies for helping us to mark the transition to the new IASC with such a splendid occasion.

The early part of the year was a busy one for IASC's Executive Committee. The Committee met on the occasion of each Board meeting and we thank its members and particularly Vice Chairman Patricia McConnell, for this hard work and support.

TECHNICAL PROGRAMME

Although the year 2000 has been a transitional year, our technical work programme continued at a vigorous pace. Having completed the work on the core set of standards, we were able to give more emphasis to important issues in specialised industry accounting. As we have already noted, the Standard on Agriculture was completed. Important projects on specialised transactions in Insurance and Extractive Industries occupied a good deal of our technical effort and major Discussion Papers were published for public comment on both topics during the year. We also started work on a project to revise our Standard on disclosures in banking.

Another area of great importance for our work programme during 2000 was Financial Instruments. Although we had completed the Standard on Recognition and Measurement of Financial Instruments at the end of 1998, the area is a complex one and we have been working to help with the implementation of the Standard by publishing extensive guidance. Furthermore, many people regard our present Standards on Financial Instruments as creating a base for further development of the requirements rather than being the last word on the subject for the foreseeable future. The Standards involve a mixture of fair value measurements and cost based measurements and call for hedge accounting that is related to

the use of mixed measurements. IASC has been cooperating with several national standard setters in a joint working group (the Financial Instruments Joint Working Group) exploring the possibility that it would be desirable to move to a Standard requiring comprehensive fair value measurement for Financial Instruments. This is a controversial matter and will require extensive due process before a view can be taken of the desirability of further changes to Standards. However, we were very pleased that the Group was able to reach agreement on publishing a consultative document, in the form of a draft Standard for Financial Instruments, before the end of 2000. The document, which was published just before Christmas, is an important one and we hope that many people with interests in this area will study it carefully and provide their comments on the proposals.

Our other Steering Committees have continued their work on IASC's agenda projects, including the Committees for Business Combinations, Present Value, Reporting Financial Performance and the Committee dealing with special concerns in Emerging Market Countries. Our Standing Interpretations Committee continued to make good progress and had published its twenty-fourth Interpretation by the end of 2000.

External Relations

IASC continued to enjoy a close working relationship with the International Federation of Accountants (IFAC) during 2000. Our 1999 Annual Review commented on the importance of the work of IFAC and the forum it established on accounting development (IFAD) in securing high quality performance in the application of IAS. The full potential value of high quality International Accounting Standards can be realised only if one can be confident about their good application. Auditing has a key role to play in this. We strongly support the work of IFAC and IFAD to develop high quality international standards for auditing and to achieve high quality implementation of those standards.

IFAC itself has adopted important changes to its Constitution during 2000 and these will enable it to achieve a high level of effectiveness in dealing with the new challenges it faces. The new Constitution adopted by IASC lessens the formal ties between IASC and IFAC because we shall no longer have a common membership and the IFAC Council will no longer be responsible for appointing members of the IASC Board. However, we are pleased that IFAC has provided a continuing place for IASC as an observer in its own governance arrangements and we believe that IASC should work to maintain this important relationship with the international accounting profession.

IASC has continued to be a member of the G4+1 Group of standard setters which met three times during 2000. The Group has published important research during 2000 and is currently undertaking work to analyse differences among national and international standards in order to help the new IASC Board decide on priorities. Once the new IASC Board begins its operations, the need for work of the kind undertaken by G4+1 will change. IASC's new Constitution provides for direct liaison on technical matters between IASC and each of several national standard setters. Some need will probably continue for meetings of the Chairmen of national standard setters and senior members of IASC and we believe that this should involve a wider group of standard setters than those who are currently members of G4+1.

IASC currently has important relationships with many other international groups, for example IOSCO, the Basel Committee and the European Commission. The new IASC should work hard to maintain and foster these good relationships.

Transition

The main administrative task during 2000 was to make the arrangements necessary for a smooth transition to operation under the new Constitution. The Trustees, who are to become the main governing body under the new Constitution, were selected by our special Nominating Committee under the chairmanship of Arthur Levitt of the US SEC and appointed by IASC's Member Bodies at the Assembly on 24 May. The Trustees met under the chairmanship of Paul Volcker for the first time in late June and on two occasions subsequently. They have established committees to deal with fundraising, appointments to the new Board, formation of the new legal entity for IASC and location.

Advertisements for appointments to the new Board were published in the summer and secured a very good field of over two hundred applicants. Hamish Kidd of Clive & Stokes was appointed to advise on the selection process. Interviews of a short list of applicants were held in Tokyo, New York and London and, at the end of the year, the Trustees were approaching the final decisions on the Board appointments. They have announced their intention to appoint Sir David Tweedie as the first Chairman of the new Board.

Good progress is being made towards raising the money needed to finance the operations of the new IASC. Under the arrangements agreed at the May assembly meeting, the Trustees have power to bring the new Constitution fully into effect by resolution once they are satisfied that they have secured sufficient funding and provided that a legal entity, conferring limited liability, is available as a vehicle for the operations. The Trustees hope to be able to pass that resolution early in 2001 and we are currently working for planning purposes on the assumption that the new Board will begin operations on about 1 April. We understand that, provided suitable accommodation can be found on suitable terms, the Trustees intend to continue IASC's location in London.

Finance and Administration

The position of the year 2000 as a year of transition was particularly evident in IASC's financial results. The basic costs of our operations continued at a similar level to 1999 and payments by Board members and by IFAC also continued on the same basis as previously. Furthermore, we had another excellent year for publications, with revenues a little up on 1999. However, we suspended during 2000 our efforts to attract special contributions to IASC's funds in order to leave the way clear for the Trustees to conduct their campaign to raise the very much larger amounts that will be needed for IASC's future operations. And we also incurred significant costs in implementing the restructuring, costs for recruitment of the new Board, for employing fundraising consultants, for Trustees' meetings and so on. The combined effect of all these factors is that IASC will report a deficit for 2000 in the order of £1million. Happily, this is a good deal less than the surpluses we had built up over the last few years and we expect to be able to finance operations up to the date when the new Constitution is introduced, without seeking additional finance from our Member Bodies, provided that there is no significant unexpected delay in implementation of the new Constitution.

Because of the imminence of implementation of the new Constitution, audited financial statements will not be prepared for the calendar year 2000 but will be prepared for the longer period from 1 January 2000 up to the date on which the new Constitution comes into effect. Audited accounts for that period will be sent to Member Bodies in the normal way.

Staffing

We are very sorry to report that Paul Pacter left during 2000. He had worked for IASC full time for four years following an earlier part time consultancy. He is remembered by his colleagues for his extraordinary technical abilities: his facility in producing a new draft of a Standard overnight, reflecting changes that were agreed during the day in discussions in the Board, has become legendary. He was project manager for many of our important projects for the programme of work on the core standards, perhaps most notably Financial Instruments. He was also the main architect for IASC's highly praised website. He left IASC to accept an offer from Deloitte & Touche to work in their Hong Kong office on a project to develop accounting standards, reflecting agreed international accounting principles, for the People's Republic of China. We wish him every success and know that he will make further contributions to the objective of international accounting harmonisation in his new post.

Sue Harding completed her term of secondment to IASC from PricewaterhouseCoopers during 2000. Her main activity was providing staff support for the Standing Interpretations Committee but she was also responsible for the project on Business Combinations and made significant contributions to the work of the Strategy Working Party.

We are most grateful to Paul and Sue for their contributions to IASC.

We were pleased to welcome two new members of the technical staff during 2000. Magnus Orrell joined us on secondment from the European Commission, having worked on accounting issues for the Basel Committee previously. Magnus is from Sweden and strengthens our links with Nordic countries. Frank Palmer joined us during the second half of the year. He was previously working in the technical department of PricewaterhouseCoopers in Australia, having qualified as a Chartered Accountant in Canada.

Conclusion

In concluding this final report for an annual review under the old Constitution we naturally feel a mixture of emotions.

We are delighted at the recent successes of IASC and believe strongly that the restructuring will enable IASC to move swiftly and surely towards the goal of establishing global accounting standards. The new IASC has a unique structure for an international organisation and it may well provide an example which other global organisations will follow. We congratulate Sir David Tweedie on his appointment as Chairman and wish him and his colleagues in the new IASC every success.

However, as our two offices come to an end and we prepare to make way for the new officers, we think particularly of the friendships and the activities of the present Board. People have often expressed surprise that a Board comprising so many individuals from so

many countries, meeting only about four times a year, and without payment for their contributions, should have achieved so much. That it has done so is a tribute to the personal qualities of the people concerned. They are a group of great technical ability, dedicated to the objectives of IASC, people who argue controversial issues fiercely but also show great collegiality. We thank all of them for their contribution to IASC and for their friendship.

Thomas E. Jones Chairman of IASC

Sir Bryan Carsberg Secretary-General of IASC