

STATEMENT OF PAUL A. VOLCKER
before the
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Mr. Chairman, members of the Committee, I appreciate having this opportunity to brief you on a project to which I am devoting considerable time -- the harmonization and convergence of international accounting standards.

In May 2000, I was invited to become Chairman of the Trustees of the reconstituted International Accounting Standards Committee, (the "IASC"). The 19-member Trustees have responsibilities for overseeing the newly appointed International Accounting Standards Board (the "IASB"), for assuring adequate financing of the effort, and for appointing members of the Board and associated councils and committees. The Trustees were appointed by a group of leading securities regulators and international businessmen, chaired by then SEC Chairman Arthur Levitt.

The former IASC has been completely restructured. The purpose is both clear and important: to achieve a single set of high quality accounting standards that will command respect around the world, that will discipline auditing approaches, simplify listing by national markets, and encourage effective enforcement by national authorities. The IASB will have its own staff, but will work to the extent possible in partnership with its national counterparts to achieve its goals.

I come at this work not as an expert on the technical issues of accounting and the auditing profession. However, in my roles as a treasury official and central banker, more recently as a director of several global industrial and financial corporations and as a long-time observer and participant in capital markets, I have long been aware of the importance of accounting rules in providing an accurate and consistent picture of a company's performance. Moreover, the rapid development of

global financial markets has greatly reinforced the desirability of -- indeed now demands -- international consistency in accounting standards and auditing approaches.

If markets are to function properly and capital is to be allocated efficiently, investors require transparency and must have confidence that financial information accurately reflects economic performance. Investors should be able to make comparisons among companies in order to make rational investment decisions. In a rapidly globalizing world, it only makes sense that the same economic transactions are accounted for in the same manner across various jurisdictions.

As you will appreciate, I have long been sympathetic to the goal of harmonized standards. What is more important is that that objective has strong support among governments and industry generally, and most important within the United States itself. My understanding has been that both the SEC and FASB, with reason, have considered U.S. GAAP to be the best in the world. In effect, they have long taken the position other countries and companies should conform if they wanted to access U.S. capital markets. In fact, it has seemed that an increasing number of global corporations were accepting this verdict.

However, the Asian financial crisis, and growing concerns about the functioning of the international money and capital markets more generally, have led to a different emphasis. They have made clear the importance, beyond the direct U.S. interest, of more rigorous reporting standards, of greater transparency, and of more effective auditing internationally. At the same time, there has been growing sentiment throughout the world that, while perhaps possessing the most developed body of standards, the U.S. did not have all the right answers. Furthermore, developing de facto global standards from Norwalk, Connecticut, has seemed increasingly unrealistic, both politically and economically, in the age of globalization.

To the SEC's and the FASB's credit, they have made it clear to me as to others that they recognize these realities. They have been playing a particularly constructive leadership role in this initiative. Mr. Levitt's chairmanship of the organizing committee was one reflection of that effort, and I have found it interesting and reassuring that two of the members that we Trustees appointed to the new IASB were former FASB members. Other members of the FASB have expressed a strong interest. FASB Chairman Jenkins has been particularly helpful both with advice and organizational cooperation.

The Restructuring of the IASC

As I indicated, I became the Chairman of the Trustees of the IASC as part of the overall restructuring process of the organization. The IASC had existed as a representative organization of national accountancy bodies since 1973. The IASC was a part-time standard setter, meeting three to four times annually with nearly 80 people sitting around the table. My sense is that some substantial progress had been made. However, this process was felt to be prone to compromise for the sake of compromise and moved relatively slowly, without the ability to deal adequately with the thorniest issues or the prestige to command compliance.

The "old" IASC, in its being, recognized the desirability of uniform standards so that companies could access capital not only in their home countries, but also throughout the world. The IASC reached an agreement with IOSCO, the international organization of securities regulators (which includes the SEC), to develop a core set of standards that IOSCO could endorse for use of publicly traded entities. In 1999, this project was completed, but the new standards did not provide a "passport" for raising funds in the United States markets, by far the most important internationally. There was a general understanding that there was more work to be done.

Concurrently, the absence of acceptable accounting standards in emerging economies came to be considered one of the root causes of the Asian financial crisis. That emphasis was strongly pressed by both international institutions and U.S. Government officials. As a result, efforts to improve the quality of financial reporting, and the need for international consistency, received fresh impetus.

After considerable debate, and with the support of the U.S. SEC, the old IASC Board agreed to adopt a new Constitution and effectively vote itself out of existence. In its stead, an organizational structure similar to that of the U.S. FASB, was established as proposed by the organizing committee. Nineteen Trustees have oversight responsibilities for the newly constituted organization. The Trustees appoint an independent and 14-member professional standard-setting Board (including two part-time members), which is chaired by Sir David Tweedie, the former chairman of the UK Accounting Standards Board.

The Trustees Committee, which I chair, includes three other U.S. members, including the Chairman of Pfizer, William Steere; the CEO of TIAA-CREF, John Biggs; and former SEC Chairman, David Ruder. The Trustees were given the responsibility to appoint a representative Advisory Council as well as the Board and to raise the funds to support an estimated \$16 million per year cost of operation. The Board was appointed in January and has recently begun to meet in its London offices.

The IASB will formally meet monthly for several days and has adopted due process procedures similar to those of the FASB. The Trustees have recently invited broadly representative individuals from the corporate, regulatory, and academic communities in six continents to join the Standards Advisory Council. The Trustees and the Chairman of the IASB are agreed that the Advisory Council should be an important vehicle for providing input in the Board's decision-making.

In that respect, I note that the Trustees are not to comment or intervene with respect to the technical agenda; it is the Board, not the Trustees, that will set the standards. It is our responsibility as Trustees, to safeguard the integrity of the process, including opportunity for adequate review of proposed standards by the Advisory Council and national standard-setters.

The Board includes men and women chosen on the basis of their accounting expertise and ability to work in harmony toward the common objective, but of diverse professional backgrounds. Five of the fourteen members have worked in the United States for the largest portion of their careers. Five have been drawn from Europe, and one from Japan. In addition to those from auditing firms, we have individuals with experience working at some of the largest multinational companies, including the former chief financial or accounting officers of Citibank, DaimlerChrysler, Anglo American, and Nestlé. The Trustees appointed three members representing the "user" community of analysts and investors. The other members of the members of the IASB have been academics, or professional standard-setters.

The Board has begun its task of working with the national bodies and will shortly consult with the Advisory Council on its work program. We have established liaison relationships with national standard-setters in recognition of the simple fact that success will require a spirit of partnership. Seven members of the Board will have particular responsibilities for consulting with the national standard setters in Australia and New Zealand,

Canada, France, Germany, Japan, the United Kingdom, and the United States. In addition, other board members will be responsible for liaising with other countries and industry groups, such as analysts and corporations.

Finally, I am happy to report the Trustees have achieved enough financial underwriting to move forward with the work. We have received support from all of the "Big Five" accounting firms, nearly all of the world's most prominent financial institutions, and a sizable number of multinational corporations in all six continents. Recognizing the value of broad based support, and with the cooperation of important national business organizations, we are now planning to contact a larger number of firms. I am particularly pleased that the initiative has the support of central banks, regulatory authorities and official international institutions, reflected in tangible financial support.

The Benefits of High-Quality International Standards

I want to emphasize that we are committed to achieving global accounting standards that reflect the best thinking of accounting professionals, independent of particular industry, national or political views. These standards will not be the lowest common denominator, simply to seek harmonization. Rather, we want the international standards to be able to command support around the world by virtue of their highest professional quality.

In some circumstances, this may well lead to convergence toward the U.S. GAAP. In other cases, I fully expect the IASB will lead to improved approaches over U.S. practice, and I hope in those cases the U.S. will then follow the international lead. The end product will hopefully be a usable and well enforced set of standards that will yield better information for investors. Similar transactions will be accounted for in the same manner across the globe.

If successful, this result should enable users of financial information in the United States as elsewhere to make investment decisions better grounded in the facts. It will also make it possible for foreign corporations to reach investors in the U.S. capital markets more easily. In concept, the cost of capital for corporations would be reduced, and investors would have increased opportunities for portfolio diversification.

More concretely insofar as individual companies are concerned, accounting costs for firms operating in different jurisdictions will certainly be reduced. U.S. firms will also find themselves with a more level playing field with respect to accounting practices when it comes to mergers and acquisitions and other business decisions that span national boundaries.

Beyond these considerations, I believe there are strong reasons for the United States to participate actively in this work. The exercise of strong leadership and responsible stewardship with respect to the integrity of our capital markets has long been a national interest. As the world's strongest economy, and as a leading proponent of open international markets, those considerations extend globally. We should practice what we preach.

More directly, the United States and U.S. based corporations have an incentive to remain at the table in the upcoming debates on the international treatment of accounting. The European Union is ready to approve legislation mandating that all consolidated statements of publicly traded E.U. companies conform to international standards as developed by the IASB by 2005. Other major trading partners -- Japan, Canada, and Australia - are also strongly supporting this initiative. I believe they will work toward convergence of their standards with those issued by the IASB. Having competing regional sets of rules does not make sense if we want globalized markets and to protect U.S. interests. Such a result would be unnecessarily costly to investors trying to understand the differences.

Reaching Our Goal

While determined to reach the ambitious goal of single-set of accounting standards, we need to be realistic about our approach over the next few years. A reasonable aim in that time frame would be consensus upon many standards, building on what is already common ground, and permitting much simpler reconciliation between the international and U.S. GAAP approaches.

In my new and unaccustomed role of close involvement in accounting issues, I have become impressed more than ever with the difficult conceptual and practical issues facing the accounting profession and those producing and using financial statements. There are deep-seated differences of opinion, colored in the past by established national approaches and contrasting regulatory philosophies.

At the most general level, there is a question of the degree of detail appropriate in setting out the standards. At the heart of the debate is whether a standard should attempt to describe precisely the application of the general standard in almost all conceivable cases, as is practice in the United States, or whether standards should be clear on the overall principle, with more general guidance on its application, while relying more heavily on building precedents in actual audits, case by case.

A fundamental conceptual issue is the extent to which the standards should move away from traditional cost based accounting to marking assets and liabilities to market, euphemistically referred to as "fair value" accounting. There is without doubt considerable momentum to move toward fair value methodologies, but there are also significant questions about the practical and useful application of that approach to certain industries and firms. Those questions have been reflected in the resistance of many bank regulators, including those in the U.S.

Clearly, the new Board will have to grapple with some of the most controversial issues with which FASB has wrestled over the past few years. These include appropriate accounting for business combinations, stock options and other share-based remuneration, and the exceedingly complex problems associated with the accounting of derivative financial instruments. Among other questions, U.S. firms have been concerned that particular GAAP standards have placed them at a competitive disadvantage in global markets. The new IASB should provide a vehicle for ensuring that competitors live up to the same high quality requirements imposed on U.S. industry, leveling the playing field.

Finally, we are aware that good account standards are one thing; enforcement is another, and critically important. The IASB has itself no mandate or authority to enforce its standards. That essential role is for the national regulators and the for the audit firms themselves. The Trustees of the IASC and the members of the IASB are prepared to work with those two groups to encourage enforcement of its standards. I have been encouraged to learn of parallel efforts to develop a self-regulatory framework for the international auditing profession. But we will clearly need the sympathetic understanding and support of the regulators, the Administration, and the Congress in the United States, as of comparable bodies in other countries, if the effort is to succeed.

As I mentioned earlier, the IASC Trustees will not take a position on technical accounting issues, including those I highlighted above. What I can assure the members of the Committee here and other interested parties is that Trustees will assure a fair hearing for the views on all sides of the debate will be heard. The comments of interested parties will be actively solicited and the Board will deliberate on these issues in an open and fair manner.