



U.S. Securities and Exchange Commission

Speech by SEC Chairman: 'International Financial Reporting Standards: The Promise of Transparency and Comparability for the Benefit of Investors Around the Globe'

by

Chairman Christopher Cox

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Thank you, Junichi [Maruyama, Deputy Commissioner for International Affairs, Japan's Financial Services Agency], for that kind introduction. And thank you, too, for all that you and the Japan Financial Services Agency have done to improve our global capital markets. I'd also like to extend my thanks to our French hosts, who have made this 33rd Annual Conference a truly momentous event. We are particularly in debt to Michel Prada, who is of course the Chairman of the French Autorité des Marchés Financiers, the Chairman of the IOSCO Technical Committee, and the prime mover behind this exceptionally well-planned conference.

As you know, in addition to these public meetings today and tomorrow, the IOSCO Technical Committee, our Executive Committee and our Standing Committees have been meeting here since Sunday, and we have accomplished an enormous amount of work. Under Chairman Prada's leadership over the last several years, IOSCO has established many milestones in deepening the international cooperation among securities regulators and in improving the quality of regulation. This conference marks the capstone of his career both at IOSCO, and at the AMF — and in recognition of our respect and affection for Michel and our appreciation for the work that he's done, I'd ask all of my friends and colleagues from around the world to join me in giving him a rousing ovation.

You know, it is very appropriate that we're tackling the question of global accounting standards here in Paris — the most visited city in the most visited country in the world. The over 30 million people who come here each year represent virtually every region and nation on earth. Here in this veritable

crossroads of the world, one can hear any language spoken, and witness business being transacted among people from vastly different backgrounds and cultures. For centuries, the French have offered their language as a *lingua franca* for use by people the world over. Today 76 million people speak French as their native language, but nearly 300 million people use French as a second or third language.

Paris was first called the City of Light not for its beautiful and romantic illumination of the Eiffel Tower, but for its role as a center of education. And the ability of scholars and leading citizens from many countries to communicate in French was key to that distinction. In just the same way, a common language of mutual understanding is vitally important to commercial integration among the world's many cultures and nations. Global markets simply cannot achieve their full potential without it.

But despite the convenience of being able to speak to people from other countries in French or in one of the world's other more common languages, such as the English I'm using today, the truth is that in the 21st century the world is still a very multilingual place. Today, the top ten languages in the world by number of speakers are Mandarin Chinese; English; Hindustani; Spanish; Arabic; Russian; Portuguese; German; French; and Japanese. And every one of these languages is spoken by over 100 million people. It may be a very long time indeed before the world's 6.5 billion people can all speak in the same tongue.

Fortunately, we won't have to wait nearly as long for the language of business and finance to converge. One of the more revolutionary developments in the world's capital markets is the remarkably quickening pace of acceptance of a true *lingua franca* for accounting.

Just as the conquistadors searched for El Dorado, the world's capital markets have long searched for a single set of high quality accounting standards that could be used anywhere on earth. That should come as no surprise, because the promise of a global standard is truly dazzling. An international language of disclosure and transparency would significantly improve investor confidence in global capital markets. Investors could more easily compare issuers' disclosures, regardless of what country or jurisdiction they came from. They could more easily weigh investment opportunities in their own countries against competing opportunities in other markets. And a single set of high-quality standards would be a great boon to emerging markets, because investors could have greater confidence in the transparency of financial reporting.

The question we can now plausibly ask, as International Financial Reporting Standards are increasingly accepted around the world, is whether IFRS are not just an imaginary El Dorado, but will indeed emerge as *the* single set of high-quality accounting standards that so many have sought for so long.

Today, all of Europe and nearly 100 countries around the world require or permit the use of IFRS, and many more are on the verge of doing so. And yet

the increased use of IFRS around the world is a fairly recent phenomenon. The majority of companies that are currently reporting financial results based on IFRS have only been doing so for a few years. This relatively limited history is an important reason that the world's securities regulators gathered here in Paris need to continue to support the work of the International Accounting Standards Board, and the foundation that oversees it — the International Accounting Standards Committee Foundation. In order for IFRS to fulfill the promise it holds to be a uniter of the world's capital markets and a powerful tool for investors everywhere, there are a handful of principles that are critical to its success. Every one of us here today needs to see to it that these principles are applied.

The first key success factor for IFRS is that the standards be crafted in the interest of investors. That has to be their overarching purpose.

The second is that the standard setting process be transparent. That is essential not only to maintain investor confidence, but to ensure the integrity and quality of the standards.

The third is that the standard setter must be independent. That means independent from special pleaders, from the political process, from favored industries or industry players, and from national or regional biases.

Fourth, the standard setter must be accountable. This means ensuring that IFRS actually meet the needs of investors and other stakeholders, and that they are updated in a timely way.

And fifth and finally, it is vitally important that all of the stakeholders themselves participate in the standard setting process in order to ensure the continued success of IFRS.

The panelists who will take the stage in just a moment are going to dive into these and other questions. So to set the stage for that discussion, I'd like to focus on each of these principles a little bit more closely for just a few minutes.

What does it mean to say the *investor's* interest must be paramount in accounting standard setting? We all know that a business's financial reports are relied upon not just by investors, but by many other people in addition, and for many purposes. Financial statements are used by the managers of the business as an important tool in making decisions. They are relied upon by many outside parties, such as commercial lenders who extend credit to the business. And of course financial reports are important to analysts of all kinds for purposes that go far beyond investing, as for example when economists use them as a basis for reporting about an industry's size and other aggregate statistics.

But above all, a public company's financial reports represent a direct communication between the company and its investors. And from the investor's standpoint, accounting standards should promote both clarity and

comparability. In these respects, both the IASB and the IASC Foundation, its governing body, are working hard to ensure that investors' interests remain the primary concern in the continuing development of IFRS. This is particularly important today, as the IASB reviews its standards in light of the experience of the recent period of market turmoil.

This focus on the investor's interest in global comparability is also evident in the IASC Foundation's aggressive support for eXtensible Business Reporting Language. In the same way that IFRS might someday soon make financial statements understandable to investors anywhere on earth, the 30 different spoken languages that will someday soon be embedded in XBRL data tags attached to public company financial statements could let any investor read an IFRS financial statement from any country in his or her own native language.

And what does it mean for the standard setter to be transparent? Why is this so important to investors? At bottom, the concern here is that for accounting standards to be considered high quality, investors must have confidence that the standard setting process was conducted with input from all affected parties — and that means, of course, investors, and also preparers, auditors, regulators, and intermediaries.

Here, too, the IASB is clearly focused on the challenges they face. They have instituted a number of procedures to encourage transparency in standard setting. Increasingly, from the selection of agenda items, to public meetings, to working groups, to public requests for comment the IASB is actively seeking input from its constituents throughout the standard setting process.

Transparency is part and parcel of a standard setter that is truly professional. And so too is independence. The standard setter should be free from undue funding pressures, and not dependent on political or corporate largesse. The IASC Foundation continues to increase its funding from independent sources, and several countries now fund the IASC Foundation through levies or a national payment. I fully support the pursuit of funding from independent sources.

IASB members, appointed by the IASC Foundation, are selected with the goal of developing a board that represents "the best available combination of technical skills and background experience...." The IASB does not have a practice of selecting members to represent specific national interests or political constituencies. This would undermine the independence of the Board, as well as investor and user confidence in the standard-setting process.

All of us have an interest in upholding the independence and professionalism of the IASB. But independence does not mean a lack of accountability. A standard setter of globally accepted accounting standards must be accountable for the timely maintenance of standards, for transparency in standard setting, and for fidelity to investor interests. This is especially vital with the ever-increasing acceptance of IFRS. National authorities have invested their confidence in the IASB's standard setting process. And their

decisions represent a significant step in the globalization of capital markets. In return for that confidence, the governments and regulators who are charged with representing investors' interests have every right to insist that IFRS in fact establish a common accounting language of transparent financial reporting.

The IASC Foundation is explicitly dedicated to the development, in the public interest, of a single set of high-quality, understandable and enforceable accounting standards. This public interest mandate is documented in the IASC Foundation Constitution. Further, all Trustees must formally commit to acting in the public interest. In order to enhance their public interest focus and this institutional framework, the IASC Foundation has announced that it will consider a new monitoring group as part of its 2008 Constitution review. The purpose of this new group is to ensure the accountability of the global standard setter to national authorities charged with protecting the cap markets and the public interest. This arrangement is designed to preserve the independence of the IASB while enhancing the accountability of the IASC Foundation to national authorities. Both of these mutually reinforcing objectives will serve the interests of investors.

The fifth and final principle on which IFRS success is based is cooperation. This means simply that the authorities responsible for financial reporting should continue to discuss IFRS development and promote its consistent application. For IFRS to truly be a single set of globally accepted accounting standards, cooperation from all is required to head off any incipient tendency toward the dissolution of IFRS into a divergent set of standards applied differently by jurisdiction. Consistency of IFRS application will assist investors in comparing financial reports without regard to jurisdictional borders. The ongoing dialogue among issuers, auditors, standard setters and regulators about the various implementation issues they encounter is critical — particularly as IFRS are still relatively new to many. With an ongoing dialogue, each stakeholder can learn from others' experiences. Happily, regulators have already begun the process of coordinating their dialogue through the IOSCO database. But it will take the sustained effort of all of us — standard setters, preparers, regulators, auditors, intermediaries, and investors — working together to ensure IFRS are developed, interpreted and applied consistently.

As IFRS gain acceptance around the world, the ultimate question remains: Will IFRS function as *the* single set of high-quality, global accounting standards? At least, when it comes to satisfying investors' concerns, there is no question of the attractiveness of the promise of a truly global accounting standard. The only real question is not whether this is good for investors, but how quickly both the accounting standards and the process by which they are established and developed can be globally recognized as world-class.

And that's where all of you come in. Even now, far too many people still don't know that IFRS are not a new invention developed in a vacuum, but rather a comprehensive set of standards developed on the basis of decades of experience by national accounting standard setters. And now more than ever, the considered views and judgments of the world's securities regulators on

how best to build and strengthen IFRS, and to ensure that they have a truly independent standard setter and a genuinely transparent standard setting process, need to be spread beyond our own councils here in Paris. You need to share your views not only with the largest accounting and financial firms, but also with shareholders, both institutional and small, and with issuers, analysts, academics, and every other stakeholder who stands to benefit from truly global standards that are of the highest quality.

I have been greatly encouraged by the progress that has been made over the past year in enhancing IASB governance, as well as the progress that continues to be made in converging US GAAP and IFRS. And as you know, there is a lot of work underway, some of it involving many of the men and women at this conference, related to technical standards issues including such currently salient topics as fair value and consolidation. You are the ones who have accepted the important challenge of making financial reporting more useful for investors. I hope you'll add to that mission the role of ambassador. In doing so, you'll be performing a vital and urgent service of improving investor information for the benefit of all. You'll be serving a cause with the potential not just to change how revenues are recognized or leases are capitalized, but to bring the nations of the world together as never before, and to change the lives of every investor for the better.

Every one of you here this afternoon is building a better future in which business information will be more clearly understood, and more transparent. And that, in turn, will help the companies in which our citizens invest to use capital more efficiently, to find ways to conserve energy, to ship and produce healthy food less expensively, to bring life saving drugs to market more quickly, or to reduce pollution. When it comes to IFRS, you're not just writing accounting rules — you're changing the world.

What better place could there be than the City of Light to illuminate financial reporting and make it clear and understandable the world over? I'm excited that here at IOSCO there are such visionary men and women who are dedicated to making IFRS truly the *lingua franca* of our planet. Thank you for all that you are doing. On behalf of the United States Securities and Exchange Commission, we are proud to be among this group of peers at IOSCO — and we are proud to be your partners.

<http://www.sec.gov/news/speech/2008/spch052808cc.htm>