Prepared Statement of Sir David Tweedie,
Chairman of the International Accounting Standards Board,
to the 2948th meeting of the COUNCIL OF THE EUROPEAN UNION
(Economic and Financial Affairs)

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I greatly appreciate the opportunity to speak to you today and present how we at the International Accounting Standards Board (IASB) are responding to issues arising from the financial crisis. The crisis has highlighted the need for increased coordination amongst policymakers, standard-setters, securities and prudential regulators. This is a clear message that the IASB has heard from this Council, the G20 and others. We appreciate your advice in advancing accounting solutions in response to the crisis.

The IASB understands that the EU Finance Ministers have expressed an increasing level of concern regarding the pace and substance of our response to the issues raised by the European Commission. We take these concerns very seriously. In particular, we recognise that we have to do a better job of keeping you abreast of our response to the crisis and how we are dealing with issues of concern to the Council.

Today, in the brief amount of time that I have, I would like to explain what we have done and what we are currently doing. Most importantly, I want to give members of the Council confidence that the IASB will issue a final standard, available for use this year, that address issues related to impairment and the fair value option. This means that financial institutions in Europe and elsewhere will be able to use the new IFRS in 2009 financial statements.

The benefit of our commitment to provide a standard for this year will be a comprehensive solution that addresses fundamental issues of concern regarding IAS 39, a standard adapted from the US equivalents and written into international standards some two years before the IASB was formed. While recognising the absolute urgency of the project, we will also move swiftly to ensure appropriate input from all stakeholders, including prudential regulators and EU member states. We are committed to working with the FASB to bring about a level playing field on a global basis. I will provide more detail on our proposed approach in a moment.

Actions taken to respond to global concerns

From the outset of the crisis, the IASB has worked on a defined programme with time lines to address issues arising from the financial crisis. Our initial focus was on the three areas identified by the Financial Stability Forum: 1) the application of fair value in illiquid markets; 2) accounting for off-balance sheet items; and 3) disclosures related to risk. On all three points, we have acted urgently.

On fair value in illiquid markets, we produced a report in October 2008 that the European Commission praised. We have consistently stated that IFRS and US guidance are consistent in this important area. I know that there was concern that the recent FASB Staff Position on fair value measurement may have created a new unlevel playing field. It is for this reason that immediately after the FASB's publication, we posted a press release reiterating that our approach was consistent with the FASB's. As an extra precaution to ensure global consistency is maintained, on 28 May 2009 the IASB published an exposure draft on fair value measurement that directly incorporates the relevant FASB guidance.

On off-balance sheet items, the G20, the FSF, and this Council have all emphasized the need to provide additional transparency related to accounting in this area. There is some evidence that IFRSs have held up relatively well on this issue, but we have now proposed tightening our rules further.

On risk disclosures, in March 2009 the IASB published improvements to the disclosure requirements for fair value measurements and reinforced existing principles for disclosures about the liquidity risk associated with financial instruments.

Response to European Union concerns

The IASB also recognises the importance of concerns raised primarily in Europe. We are proud that the European Union, the world's largest economic area, adopted IFRSs rather than opting for a particular European standard. We value greatly your commitment to global standards prepared by an independent standard-setting body. As a direct result of your leadership in this area, over 100 countries throughout the world now require or permit the use of IFRSs. It is crucial for the achievement of global standards and the effective functioning and prosperity of the European, and indeed the global economy, that the EU remains committed to IFRSs.

The IASB has acted on each of the four issues raised by the European Commission, on behalf of member states and EU stakeholders, in the fourth quarter of last year. The Commission called for a standard-setting response on the following issues: (1) the need for guidance about fair value measurement in illiquid markets; (2) the desire for clarification regarding whether credit derivative obligations (CDOs) include embedded derivatives to ensure consistency between IFRSs and US GAAP; (3) the existing impairment rules related to available-for-sale instruments; and (4) the possibility of reclassification out of the fair value option into other categories.

As I explained earlier, we have completed work on fair value in illiquid markets.

We are working with the US standard-setter, the FASB, to ensure consistency in the accounting of embedded derivatives. This will entail a FASB clarification to be in place for 2009 financials.

This leaves us with the issues of the impairment rules and reclassification out of the fair value option. These are the issues, particularly the impairment issue, where the Council recommended urgent action. Our original plan, based upon significant input from stakeholders in Europe and elsewhere, was to resolve these two issues through a comprehensive revision of IAS 39. This has always been a priority.

It was for this reason that on 1 April, we announced that we would undertake an urgent six-month comprehensive project to produce a proposal aimed at a comprehensive revision of IAS 39 *Financial Instruments: Recognition and Measurement*. We were pleased that the G20, at its London summit the next day, called on standard-setters 'to reduce the complexity of accounting standards for financial instruments'.

However, the recent US FASB Staff Positions (FSPs) regarding fair value measurement and impairment caused the IASB to accelerate the timing of the approach announced on 1 April. We have now prioritised – in advance of other topics covered in the IAS 39 replacement – the portion of the comprehensive project concerning classification, measurement, and related impairment issues.

We are fully committed to having the accelerated portion of the project completed for use by year end. In July, the IASB will produce an exposure draft on a new standard that will address the impairment and reclassification issues raised by the Commission. The exposure draft will be open for two months to public comment to ensure conclusions follow a transparent and open due process that considers the views of all stakeholders. Additional board meetings have already been held, and will continue to be scheduled as required to complete the project in time for 2009 financials.

I would like to stress at this stage that we are committed to ensuring all stakeholders have a say. This also obviously and particularly includes this Council and other stakeholders in the official community, who have a key interest in a positive outcome.

This timeline will also ensure that due process for endorsement is available at the European level. We will work with all relevant bodies (such as EFRAG, the European Parliament, the European Commission, and the Council) to facilitate a smooth endorsement process. We are also confident that the Swedish Presidency will want to ensure that the standard is expeditiously processed by relevant committees at the Council level.

We believe that our approach is a superior one to one that would merely adopt the US FASB Staff Position on impairment for the following reasons. First and foremost, our work on impairment directly addresses the specific nature of EU concerns. Second, our approach responds directly to the G20 call for reduced complexity. The proposal will see a much needed reduction of the number of categories of financial assets and will leave us with only one impairment method.

Third, the proposal anticipates future problems associated with reclassifications by replacing restrictive tainting rules affecting held-to-maturity securities with measures aimed at transparency. Finally, a comprehensive solution avoids the confusion and cost would arise from repeated changes in reporting requirements. In this economic environment we recognise that this unnecessary cost would not be welcomed by most financial and non-financial companies.

I know that some may be asking why we just do not implement the FASB approach relating to available for sale debt securities. I stress that if we adopt the FASB FSP, this neither creates a level playing field, nor will it mean an end to the level playing field issue. This is a fundamental point that deserves underlining here. Our impairment rules are very different. On many issues EU financial institutions would not want us to adopt the US approach on impairment. For example, we permit reversals of losses in a number of instances, where the US does not. Impairments under IFRSs have different triggers than US GAAP. It is for this reason that even today, after the FASB change, the US banking association is already arguing that EU banks have a competitive advantage.

Given the urgency of the fundamental issues surrounding IAS 39, we cannot afford the potential protracted back-and-forth between the IASB and the United States which could undermine the comprehensive and desperately needed revision of this standard.

I also wish to assure you that in addition to the priority given to the issue above, the IASB will continue its work on other issues raised by the G20 and the Council. We will have an exposure draft ready for October that would deal with provisions, including consideration of an expected loss model. We are working closely with the Basel Committee, other prudential supervisors, and securities regulators on the issue of provisioning. We will have an exposure draft on hedge accounting shortly thereafter. We will keep closely in touch with the FSB and the ECB.

Clearly, the work that we are doing on the IAS 39 replacement requires significant, transparent and open consultation. We want to establish a more formal dialogue with prudential regulators on issues related to the interdependence of accounting and prudential standards and hope that the European Union could play a useful role in this process. We want to develop a structure that will ensure that we do a better job in taking the views of ECOFIN, central banks and prudential supervisors into account. We greatly appreciate the advice that both Jean-Claude Trichet and Mario Draghi have offered to establish such a dialogue.

In the meantime, I wish to assure that the IASB is committed to the timeline that it has laid out. A new standard that deals with your concerns will be in place by year end. I would be pleased to answer any questions that you have.