

**Prepared statement of Sir David Tweedie,
Chairman of the International Accounting Standards Board
before the Accounting Regulatory Committee**

Brussels, Belgium
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Mr Chairman, members of the Accounting Regulatory Committee, thank you for this opportunity to appear before your committee to discuss the development of International Financial Reporting Standards (IFRSs) by the International Accounting Standards Board (IASB) and in particular the matter of convergence.

I am pleased that Max Dietrich Kley, one of the IASC Foundation's Trustees, has joined me today. He has been closely involved in the discussions in Europe regarding the recently completed Constitution Review, he serves on a Trustee committee reviewing the IASB's procedures, and he has been actively seeking alternative funding mechanisms for the IASC Foundation.

This is my second appearance before this committee, and it comes at an important juncture for the IASB's convergence work. As members of this committee know, at a meeting in Washington DC in April, Charlie McCreevy, the EU Internal Market Commissioner, and William Donaldson, the US Securities and Exchange Commission (SEC) Chairman, discussed a roadmap that establishes a goal of eliminating the reconciliation requirement for non-US companies registered in the United States as early as possible between now and 2009 at the latest.

The announcement resulting from the EC-SEC meeting has underscored the relevance of the work already under way between the IASB and the United States national standard-setter, the Financial Accounting Standards Board (FASB). From the very beginning, the IASB's foremost objective has been to develop a single set of rigorous, internally consistent, and enforceable international accounting standards, faithfully and consistently applied throughout the world's capital markets. The European Commission, the European Parliament and EU Member States deserve much credit for providing the impetus to our efforts. Your choice of an international approach to accounting standards over a national and regional approach for Europe is a model for others. At the same time, if we are to achieve truly global standards and all the benefits that they will bring, accounting

convergence must necessarily involve the United States, which accounts for nearly half of the world's total market capitalisation.

We at the IASB believe that the recent announcement provides an opportunity to ensure continued US participation in our convergence efforts and to reduce barriers to capital flows between the United States, Europe, and other areas using IFRSs. In that light, the IASB and the FASB have been working to develop a plan aimed at addressing the roadmap discussed by the US SEC and the European Commission. I would like to discuss our preliminary thoughts about this work plan with you today and would welcome your comments.

A sharper focus with a near-term payoff

In October 2002, the FASB and the IASB reached what has now become known as the 'Norwalk Agreement'. The Norwalk Agreement set out a framework for joint work by the two boards. The agreement had a simple objective—to improve the quality of US generally accepted accounting principles (US GAAP) and IFRSs, while reducing differences between the two sets of standards. This agreement was significant, because it marked the first time a strategy was put into place to eliminate differences between US GAAP and IFRSs.

We have seen progress on both sides of the Atlantic, and both boards have shown their commitment to change towards better answers and to accept the input of other standard-setters in an effort to build a common set of standards that are of high quality. The IASB has eliminated many of the differences between US GAAP and IFRSs through its Improvements project and our standards on business combinations and discontinued operations. At the same time, the FASB has changed US practices on share-based payment, the treatment of idle capacity and spoilage costs in the cost of inventory and asset exchanges. Changes are also expected in the US standards on the calculation of earnings per share and voluntary changes in accounting policies to bring US GAAP in line with IFRSs. Furthermore, both boards have either proposed or are working towards proposals to eliminate other differences.

While progress has been made in reducing the differences between US GAAP and IFRSs, both the FASB and the IASB are aware that companies are coping with a number of changes related to financial reporting during the past three years. Companies in the United

States (and some European companies) are now complying with the reforms introduced by the Sarbanes-Oxley Act. In Europe and elsewhere, the IFRS requirement has meant that companies have needed to overhaul their accounting practices.

We are also conscious that many observers will judge our convergence efforts a success only when the US SEC has removed the reconciliation requirement for companies using IFRSs and registered in the United States. I am also aware that the Committee of European Securities Regulators (CESR) is about to finalise its recommendations regarding equivalence.

Recognising the significant costs of implementation and the need to be sensitive to the business environment, both boards have been considering ways to prioritise their shared work programme to ensure that the costs of implementation are minimised and that objectives set out in the roadmap are met. It is on this matter of our future convergence programme that I would like to brief you today.

Before and since the April meeting between Mr McCreevy and Mr Donaldson, the IASB and the FASB have been discussing their future priorities. We have been also consulting both the European Commission and the SEC.

The FASB and the IASB's immediate objective is to agree to a specific plan with a timetable that, if achieved, would enable the SEC to consider removing the reconciliation requirement by the end of 2007 or early 2008. I should say that the SEC has indicated that it would consider issues related to consistency of enforcement, implementation and audit quality before making any decision on the reconciliation, but those are not matters for accounting standard-setters. It is our job, however, to ensure that accounting standard-setting issues are not an impediment to removing the reconciliation requirement in the United States and do not place Europe in a more difficult position regarding its judgement on equivalence.

The support that the European Commission and the SEC are providing encourages me to be optimistic that we can achieve our goal on convergence and reconciliation. I recognise there is some scepticism in Europe about US intentions regarding IFRSs, but the recent announcement of the roadmap proposal is a demonstration of the SEC's (and the FASB's) continued commitment to the convergence process.

The IASB's discussions with SEC staff have focused on determining what would be the minimum amount of changes to accounting standards required to enable the SEC to consider removing the reconciliation. In these discussions, it is clear that the SEC staff believe that the two boards would be better devoting their resources to the convergence and improvement of accounting standards over time rather than engaging in eliminating existing differences between standards that need significant improvement (for example, the existing standards dealing with pensions or financial instruments). Furthermore, all involved agree that the needs of investors are not served by trying to achieve the convergence of a stronger IFRS with a weaker US standard or vice versa.

The implication of this approach to accounting convergence for our work plan—and the reconciliation requirement—is significant. The FASB and the IASB must continue to work on removing differences in a few projects on the existing agendas, many of which are already near completion. We will not, however, need to achieve full convergence of accounting standards before the reconciliation requirement is removed, provided obvious progress is being made in key areas where both IFRSs and US GAAP are in need of significant improvement. The approach set out by the SEC enables the FASB and the IASB to focus our energies on areas where improvements are most needed.

All of this raises the questions of what are the areas where improvement is needed and the current standards are deficient and what 'progress' means. The two boards are trying to develop a list of those areas for joint improvement, many of which are already on our agenda. For further guidance, we are also looking to CESR's work on equivalence and the SEC's recently released report on off balance sheet items.

Furthermore, we are creating a timetable for these projects by which the SEC, CESR, and other interested parties could assess our progress. In terms of the SEC's decision on reconciliation, the SEC's staff have indicated to us that progress does not necessarily mean the completion of a standard. In some cases, it will mean the development of an Exposure Draft or a Discussion Paper, in others it will require significant board time and deliberation of the topic, and in some merely the inclusion in the boards' agendas and development of a project plan.

We will hope to finalise the work plan by the end of the summer. Once completed, we intend to publish this programme on our Websites and in publications. It would

obviously be helpful if an agreement that the work plan met the objectives of the proposed road map to the elimination of the reconciliation requirement could be reached between the European Commission and the SEC.

Topics for consideration

Short-term convergence

As I mentioned, the FASB and the IASB will continue its short-term convergence aimed at eliminating the differences in a few focused areas, where differences are relatively easily resolved. The IASB is currently examining changes in IFRSs on the following topics:

- Segment reporting
- Government grants
- Borrowing costs
- Joint ventures

The FASB is initiating work on the following areas with the aim of bringing US GAAP into line with IFRSs:

- Research and development
- Investment properties
- Fair value option (IAS 39)

The boards are working jointly to bring the requirements on income tax together, with an Exposure Draft planned by the end of the year. Finally, our staffs are undertaking research work on impairment to explore other convergence opportunities.

Major joint projects

Limiting the amount of short-term convergence initiatives will allow us to focus on areas where current accounting standards require improvement. We will need to address areas where accounting has failed to keep pace with new developments in the marketplace or where assets and liabilities have been kept off the balance sheet. In many cases, both US GAAP and the IASB standards share deficiencies, even if differences exist in the existing standards. Our aim is to develop common high quality solutions to these accounting problems and forgo changes in standards where significant overhaul is needed in the long term.

Many of the issues for longer-term convergence and deemed to be part of the necessary work plan are already on the agenda ¹:

- Business combinations *
- Liabilities/equity *
- Financial instruments *
- Derecognition *
- Performance reporting *
- Revenue recognition *
- Fair value measurement guidance #

Others are topics that both the SEC and CESR have identified as issues of concern and most of which would require addition to our agendas. They include:

- Consolidations *
- Pensions #
- Leases #
- Intangible assets #

On all of these topics, we will need to determine a realistic timetable for work. We will also need to factor in the need for consultation, including whether working groups are necessary and the amount of consultation required. In my oral presentation, I will discuss possible timing of both the short and major initiatives. I attach a schedule showing the timetable for the various projects included in the convergence plan. I should perhaps indicate that pressure to add additional 'urgent' issues to our agenda or unexpected issues arising on due process may put us under pressure in meeting our deadlines.

Additionally, two other topics concerning convergence but not part of the roadmap are already moving ahead, namely:

- Insurance accounting *
- Conceptual framework *

Many in Europe have expressed the concern that the US FASB will dictate the outcome of discussions. Let me emphasise that the convergence efforts are aimed at

¹ *indicates projects already on the active or research agenda

indicates projects still to go on the agenda

developing the best approaches, either existing or new, to the accounting challenges facing the FASB and the IASB. This is not an exercise in adopting US GAAP internationally.

The IASB recognises the need to consult with interested parties in Europe fully before reaching conclusions on these convergence topics. We have already established working groups that include significant European participation. As Paul Volcker, Chairman of the IASC Foundation Trustees, mentioned when he met this committee in February, we also would welcome a body that could speak for Europe and from which we could gather advice before discussing convergence items with the FASB.

The path ahead

Despite controversies that have arisen regarding IAS 39, we find ourselves in a position to continue to make progress towards the ultimate objective of a single set of accounting standards for financial reporting in the world's major capital markets. The European Union and its Member States deserve credit for the leadership that they have shown in providing momentum to our efforts.

This is not to minimise the challenges before both the FASB and the IASB. However, the roadmap discussed by the European Commission and the SEC provides a clear incentive to both boards to press forward in their convergence work in an expeditious manner. The prize, if successful, will be to remove barriers to investment that lie between the two largest economic areas of the world.

I look forward to keeping the committee posted in the months ahead.