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Global convergence of accounting standards: the EU perspective

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

IASCF (International Accounting Standards Committee
Foundation) Conference

Frankfurt, 6 April 2006

Introduction

Thank you, David. I should like to start by congratulating the IASC Foundation for organising this Conference and thanking our colleagues from the SEC and the FASB for making the trip to be here with us today. I am pleased to see that your efforts have been rewarded with such an impressive number and range of participants.

The extent of the participation today demonstrates the desire for dialogue between practitioners and standard setters on IFRS. Such dialogue is essential if the full benefits of IFRS are to be realised in practice. Dialogue must also be a central part of IFRS/US GAAP convergence. Our work on convergence needs to be fully explained. Companies, auditors and market participants should be given every opportunity to understand and contribute. The Commission welcomes the convergence programme agreed between the IASB and the FASB in February this year and I applaud David's and Bob Herz's sterling efforts in putting it together. There are a number of projects in the convergence programme which are complex and controversial. If the programme is to succeed, continuous dialogue will be necessary as work goes forward. Accounting standards must remain in touch with business reality. We need financial statements that investors can use and understand.

I should like, therefore, to encourage you David and the IASC Foundation to make this the first of a series of such events which will be held regularly and establish a "convergence" tradition of forthright and open dialogue.

In my presentation this afternoon, I will address 3 areas: where we have got to on application of IFRS in the EU; what convergence means in practice for the EU; and finally I will say a few words on issues which go beyond convergence, not least the need for a more stable funding for the IASB.

Application of existing IFRS in the EU

What can be said about the current state of health of the application of IFRS in the EU?

As you are all well aware, the EU's decision that all publicly traded European companies should use IFRS for consolidated financial statements, as from 1 January 2005, has resulted in the biggest change in financial reporting for a generation. Many financial reporting traditions, familiar to old accounting hands like myself, have been changed.

In making this bold move to IFRS, we took a gamble. But the prize should be a big one. The successful implementation of IFRS should have very positive benefits. There should be a reduction in costs for multi-national groups as a multitude of national GAAPs are swept away and comparability between financial statements should be enhanced. In consequence, we should see lower costs for raising capital, better access to funding, better opportunities for customers and investors and a more efficient allocation of funding resources. No-one really questions the potential benefits. But many are asking when the pay-out will come? When will we see a return on the major investment we have made in moving to IFRS?

My view, having listened to companies across the EU over the past 18 months, is that, in order to reap the full benefits of IFRS in the EU in the short term, we must focus on 2 key issues: (1) ensuring there is a “stable platform” for existing IFRS, so the new standards can bed down and prove their worth; and (2) solving any problems of application or enforcement to ensure consistency in the standards throughout the EU.

I am very pleased to note that the IASB/FASB convergence programme recognises clearly the need for stability for companies using IFRS in the near-term. We should not be adding any new wagons to the IFRS train, just after it has left the station.

Consistent application and enforcement pose the EU with a significant challenge. To meet this challenge we need coordinated efforts by a large number of institutions and market participants: the European institutions, international and national standard setters, regulators, accounting experts, audit firms, and preparers. This is why the Commission will set up a temporary, informal Roundtable on consistent application of IFRS in the EU. The Roundtable will meet for the first time on 17 May.

It will serve as a forum for sharing experiences on application of IFRS. It will also group together those issues which give cause for common concern and recommend that these should be taken up by IFRIC, the IASB body which is responsible for issuing interpretative guidance. I would like to encourage the IASB to re-double its efforts to make IFRIC effective. This is essential if we are to ensure that national authorities avoid the temptation to jump in and issue their own interpretations.

Downstream, the Committee of European Securities Regulators (CESR), which brings together national regulators, and of which John Tiner is an eminent member, has a key role to play in consistent enforcement.

Cooperation between regulators on both sides of the Atlantic will be critical. During my contacts with Chairman Cox of the SEC in February this year we agreed that dialogue on the implementation of IFRS is of the utmost importance. CESR and the SEC must coordinate their efforts to guarantee that no conflicting decisions are taken in relation to European companies applying IFRS and filing in the US. From the EU’s perspective, this is a fundamental element of our mutual commitments on which we must deliver. Practical steps must be taken to give effect to it. In so doing, we must not lose sight of the fact that IFRS are principles-based. Consistent application does not mean “identical” application...

What does “convergence” mean?

Nor does “convergence” of standards mean “identical” standards. The precise definition of “convergence” is a topic which regulators and standard setters could spend years debating...

I am pleased to say that, from the EU Commission and the SEC’s point of view, we have decided to put an end to the theoretical debate, to cut the Gordian knot and find a practical way forward.

As you heard earlier from Julie Erhardt, Deputy Chief Accountant of the SEC, last year the US Securities and Exchange Commission (SEC) developed a roadmap that highlights the steps needed to eliminate the US GAAP reconciliation requirement for foreign private issuers that use IFRS. It establishes a goal of eliminating the requirement by 2009 at the latest. The SEC has made clear it is not expecting complete convergence or radically new standards, but rather an “effective process” and “measurable progress” towards convergence. Convergence is, therefore, a means to an end, not an end in itself: the end result that we are working towards is recognition of equivalence of IFRS and US GAAP.

The EU must, of course, also take a decision of equivalence of US GAAP. I have already made clear that I favour prolonging, until 2009, existing arrangements allowing the use of US GAAP in Europe. This is currently under discussion with Member States. From the EU's point of view, the period until 2009 will be used to follow closely convergence efforts as well as studying how the issues raised by CESR in its analysis of US GAAP are resolved.

The convergence objective is, of course, at the heart of the IASB and FASB's joint work programme. This was discussed by David earlier. I welcome the fact that the work programme aims to balance amendments to current standards with longer term considerations, whilst focusing on areas where there is a clear business case for improved accounting standards.

I mentioned at the outset the need for dialogue and wide consultation in implementation of the work programme. In the EU we have stepped up our efforts to ensure we are able to provide strong technical input to the IASB's work. In particular, the European Commission has recently concluded a working arrangement with the European Financial Reporting Advisory Group (EFRAG). This builds on existing arrangements and should enable the Commission and EFRAG to work hand in hand and even more effectively in the future.

There is one specific aspect of the IASB/FASB work programme I should like to mention at this stage. The projects listed in the Memorandum of Understanding will be debated in the context of the ongoing joint project on respective Conceptual Frameworks. Convergence of existing accounting frameworks is important for the development of a truly global set of accounting standards. However, it is important that significant changes to the Framework are debated within the context of the Framework as a whole, before being introduced into accounting standards.

Traditionally convergence so far has concentrated on the IFRS - US GAAP axis, but we should not forget that today, convergence is not just limited to US GAAP. Other important and major jurisdictions such as Japan, China and India are also seeking to align more closely their national accounting standards with IFRS. Our efforts will need to be adapted accordingly.

Beyond convergence....

Whilst convergence is important, there are other projects on the IASB's work programme that are crucial for Europe. I consider that projects on service concession arrangements, insurance accounting, the removal of the "carve-out" in IAS 39 are important and work on these projects needs to continue at the same time as work on the convergence projects. These additional projects will complete some of the gaps in the existing standards and help in the consistent application of IFRS.

One further project which merits mention is the IFRS for SMEs project. SMEs are crucial for the economic development of Europe. The vast majority of the over 5 million companies in Europe need accounting requirements that are easy to understand and relevant to the types of everyday transactions they carry out. I therefore have one clear message for the IASB in this work: "keep it simple". Increasing transparency in accounts is a worthy objective. But the price of this must not be excessive complexity, especially for SMEs. I would urge the IASB to ensure sufficient time is allowed for an in-depth discussion of the overall objective of accounting for SMEs, before any exposure draft is issued.

Last, but by no means least, IASB funding. The IASB needs the appropriate financial means to continue its high quality work. It needs a more stable source of funding, which draws on a wider basis of contributions from users. I have indicated to Tommaso Padoa Schioppa that I will put my weight behind efforts to find a co-ordinated solution at EU level. Discussions are already underway, and there was a useful Conference here in Frankfurt - which seems at present to be the accounting capital of Europe - this time last week. Over the coming months, work on this issue will be a priority for the Commission. Time is short. I hope we will be able to secure a consensus at least by the Autumn of this year, so that new arrangements can be put in place for 2008 and beyond.

Conclusion

High quality financial reporting is fundamental for an integrated European capital market which operates effectively, smoothly and efficiently. Europe made a visionary step to require the use of IFRS: now we must see to it that they are consistently applied and interpreted across the EU so that companies can reap maximum benefit. I am a firm believer in truly global accounting standards that serve efficient capital markets around the world and we have an opportunity at the moment to ensure that the momentum towards convergence is maintained so that these benefits can be felt, not just for companies within the EU, but also for companies across the globe.

Thank you for your attention.