Accounting Standards and Financial Transparency

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Accounting on the Global Agenda

- **The Fair Value Discussion**
  - Pro-cyclicality / illiquid markets; link with capital regulations
  - Adjustments by standard-setters under political pressure
    - IASB: Reclassifications (Oct 2008), Financial Instruments (Jul 2009)
    - FASB: Impairments (Apr 2009), Financial Instruments (Jul 2009)
  - Rifts among regulators:
    - prudential (stability) vs securities (transparency)?
    - BIS input

- **The Governance Discussion**
  - Monitoring Board: outlined 2007, implemented 2009
  - Members: IOSCO (Global+Emerging), SEC (US), EC (EU), FSA (JP)
    + BIS as observer
  - ‘Constitution Review Part 2’, ongoing
  - Change in funding model: companies → countries
The European Situation

- **Europe endorsed IFRS in 2000-02**
  - Internal harmonisation
  - Level playing field with US
  - Leadership effect
    
    “The European Union’s decision to adopt an internationally recognised set of standards, rather than create a uniquely European accounting system, provided the necessary encouragement for other countries to adopt a similar approach”
    
    David Tweedie, Testimony to the US Senate, 24 October 2007

- **Second thoughts**
  - IASB is independent: ie, not responsive to EU specific interests
  - Endorsement process gives limited leverage
  - Lack of Commission clout and direction
The US Situation

- Nov 2007 elimination of reconciliation with US GAAP
  - Aug 2009: 137 out of 1000+ foreign registrants have chosen IFRS
- Nov 2008 consultation on ‘Roadmap’
- IASB Independence and funding
  
  “When it comes to international accounting standards, it’s critical that these standards are converged in a way that does not kick off a race to the bottom.
  “American investors deserve and expect high standards of financial reporting, transparency, and disclosure -- along with a standard-setter that is free from political interference and that has the resources to be a strong watchdog.
  “At this time, it is not apparent that the IASB meets those criteria, and I am not prepared to delegate standard-setting or oversight responsibility to the IASB.”

  Mary Schapiro’s written response to US Senator Carl Levin, January 8, 2009

- Cost of transition / crisis context
The Asia / BRICs Situation

- India: IFRS mandatory for FYs from 1 Apr 2011
- China: new standards close to IFRS since 2007
- Japan: voluntary adoption, convergence, decision in 2012
- Korea: IFRS mandatory for FYs from 2011
- Brazil: IFRS mandatory for FYs from 2009
- Lagging involvement in the Governance debate
  - First Chinese IASB Member (Zhang WeiGuo) appointed July 2007
  - First Indian (Prabhakar Kalavacherla) appointed January 2009
  - China, India not yet permanently represented in Monitoring Board
Choices for the IASB & Foundation

- **Governance Reform**
  - Mandate, funding, stakeholders
    - Does the IASB work for governments, users, both?
    - Independence at stake = purpose of the organisation

- **Public strategy and outreach**
  - Role / skills of IASB & Trustees

- **Implementation and enforcement?**
  - Who provides guidance (“rules”)?
  - European Chief Accountant?

- **Alternative scenarios**
  - Global duopoly – but looks unstable
  - Regional fragmentation
  - Competing global standard-setter
Thank You For Your Attention

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