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IFRS – No Pain, No Gain?

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

Official opening of FEE's (Fédération des Experts Comptables Européens) new offices

Brussels, 18 October 2005

Ladies and Gentlemen.

It is a pleasure for me to be with you this evening for this official opening of FEE's new premises here in the Avenue d'Auderghem. FEE is, of course, a long-standing and trusted interlocutor of the Commission, as the representative of the accountancy profession in Europe. Your new offices are just opposite the Berlaymont, so FEE will be able to keep an even closer watch on the Commission, and vice versa, in the future!

The title of my speech is "IFRS – No Pain, No Gain?". Not because we are closet sado-masochists, but because I wanted to use this opportunity to talk about the potential benefits of IFRS and recall our common goals in this endeavour.

Introduction

You know that I am strongly opposed to legislation that only places burdens on companies. I am a firm believer in the dictum "Less is more". So I can well understand the complaints of companies as they confront the costs of moving to a new financial reporting system based on IFRS. But without a common accounting standard, we cannot have an integrated capital market in Europe.

Benefits to European Economy

Clearly, the Financial Services Action Plan to integrate financial markets in Europe makes no sense, if investors have to rely on financial statements based on differing local GAAPs. A common accounting standard increases investor transparency and comparability. As users become more familiar and confident with IFRS, the cost of capital for companies using IFRS should fall. It should lead to more efficient capital allocation and greater cross-border investment, thereby promoting growth and employment in Europe.

Furthermore, we are all aware of the challenges that globalisation and a rapidly-industrialising China are bringing. Now more than ever, we need to press on with the Lisbon agenda and increase the efficiency of the European economy. A common accounting standard based on IFRS, rather than a thicket of different national standards, is therefore not a luxury, but rather an absolute necessity.

Benefits to companies

You may say this is all very fine and well at the macro level, but what about the micro level, where companies feel the pain? Migration to IFRS involves major costs, particularly for IT systems and I know these costs can be substantial. But most of these costs are one-off and in future years, this should be an investment that produces a regular and growing benefit for the company.

Not just externally in terms of reduced capital costs but also internally in terms of better management reporting and internal control systems. For cross-border companies with activities in many different EU Member States, the move to IFRS should also provide major, qualitative and quantitative benefits to internal financial reporting. IFRS should also bring more transparency.

I know that some accountants and users of financial statements are scratching their heads on whether this is, in fact, the case. Time and experience will tell. And I want you to be sure to tell the IASB and the Commission about your experiences, so that lessons can be learnt on the basis of them. I want to be able to distinguish between teething troubles and fundamental issues.

Many of the standards will be capable of being improved. And I believe we should have a real debate about any fundamental issues which arise, where necessary.

But we have to stay the course. We are running a marathon, not a sprint. The benefits are real and are there for the reaping.

Benefits globally (US GAAP Reconciliation and SEC Roadmap)

I recognise that, given the success of the Euro and the growing liquidity of EU capital markets, access to US capital is no longer an issue for many SEC-registrants. Rather the question has become how to get out of the US capital market! (and I will say something on de-registration in a moment.)

But the fact remains many of our largest companies have US listings. They have endured the cost of moving to IFRS, yet they remain subject to the on-going expense of carrying out a reconciliation to US-GAAP. This costs EU companies millions of dollars every year, money which could certainly be better spent.

I can understand that some in the EU are saying this cannot continue and that we should take reciprocal action: that US companies listed in the EU should also have to reconcile their US GAAP financial statements to IFRS. But I do not think we will gain much by seeking short-term conflict. Rather, we need durable, long-term solutions. We need progress, not a showdown. We need to build on our agreement with the US. In April this year I met with the former SEC Chairman, Bill Donaldson. We agreed on an SEC Roadmap that provides for the removal of the US GAAP reconciliation requirement as early as 2007, but no later than 2009. I look forward to confirming this with the new SEC Chairman, Christopher Cox. I think we are still on track to remove the US GAAP reconciliation requirement for EU issuers.

The IASB and the US-FASB are also working on how the two standards can be brought closer. This process must be a two-way street. Moreover, it must be transparent with input from all interested stakeholders. Now is the time to let us have your views on the IASB/FASB draft work programme. I will also continue to work to improve IASB governance. Some progress has been made but we can still do better. We need balanced decision-making structures. The IASB desperately needs more stable, predictable financing.

Global capital markets are not just about the EU/US relationship. Other important jurisdictions such as China, Japan, Canada, and India, are increasing their co-operation with the IASB, or are seeking to converge national GAAPs with IFRS.

Finally, for companies who wish to exit the US capital market, the SEC has promised to come forward with proposals concerning registration and deregistration before the year end. All the signs are that these proposals should move in the right direction.

Consistent application of IFRS - the challenge

Before seeing the full benefits of IFRS on the global stage, we need to be sure of reaping the benefits at home first. As a principles-based standard, IFRS provides more freedom and flexibility than a rules-based standard. But, at the same time the different traditions and accounting approaches in EU Member States mean that achieving consistent application of IFRS in the EU will be a major challenge.

It is a challenge where we all, preparers, users, auditors, national standard setters, and regulators can, and indeed, must play our role. I cannot stress too much how important it is for all interested parties to pull together now to make consistent application of IFRS within the EU a reality. At the same time we must be very careful that with so many cooks involved, we don't spoil the broth

We need sufficient consistency in the application of principles that investors and regulators can have confidence in the same high quality of IFRS accounts, whether they be prepared in Athens or Amsterdam.

Downstream, EU enforcement bodies have an important role to play in cooperating and coordinating their activities to achieve consistent application. The Commission welcomes the various steps already taken by CESR (the Committee of European Securities Regulators) to ensure consistent enforcement. Nevertheless, we should not depend on enforcement decisions leading to the restatement of company accounts. This damages general confidence in IFRS. There is therefore an important role to play upstream.

Auditors and preparers can also do much themselves to improve consistent application, particularly on a cross-border and sectoral basis. One option the Commission is considering is whether a useful role could be played by an informal "Roundtable". This Roundtable could try and solve practical problems and filter out issues which may require formal interpretations from the IFRIC, the responsible IASB body. However, what is absolutely clear is that we do not want any EU body, formal or informal, providing EU interpretations and guidance. This runs counter to the whole philosophy of IFRS.

Conclusion

Ladies and Gentleman, to conclude. I agree with all those who find the move to IFRS difficult, cumbersome and expensive. I know the one-off costs can be substantial, but this should give way to a significant stream of benefits in future years. To make this a reality and in elaborating a good set of standards, we all have a role to play. Consistent application of IFRS in the EU must become a reality. We have to learn lessons and improve standards, where necessary. Ladies and Gentleman, I know it's hurting. But this evening, I would like to reassure you that it will work, and that the pain is well worth the gain!