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Michel Prada, Chairman of the Trustees, IFRS Foundation

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Introduction

Ladies and gentlemen,

As Chairman of the Board of Trustees of the IFRS Foundation, it is my great pleasure to be here today and it's an honour to participate in this UNCTAD-ISAR Conference on International Standards for Accounting and Reporting

As you may know, the Trustees of the IFRS Foundation are responsible for the governance and oversight of the International Accounting Standards Board. Among other things, we are responsible for determining strategy, ensuring adequate financing, and above all, safeguarding the technical independence of the IASB.

As an organisation, our goal is to develop a single set of high quality, globally-accepted accounting standards; or, to put it another way, to provide financial markets worldwide with a standardised language for financial reporting.

Benefits of IFRS

The concept of global standards is not a new one. However, in the wake of the financial crisis, the development of such standards has become a necessity rather than an ideal.

We now operate in a world economy that transcends national borders, where foreign direct investment accounts for a huge proportion of overall investment. In this respect, the benefit of a universal accounting language is clear: investors and other

stakeholders need high quality information to make informed decisions.

Standardising this high quality information helps investors to allocate capital on a more efficient basis, particularly when it comes to emerging markets. In contrast, national rules, as well as creating opportunities for regulatory arbitrage, restrict this movement of capital by introducing uncertainty and increasing the costs for those wishing to invest.

Today I would like to speak to you about the progress we have made in achieving our goals, how we have worked to achieve them and the challenges we are likely to face going forward.

We have made, I think, remarkable progress since the year 2000, when the International Organization of Securities Commissions, or IOSCO, endorsed the core international accounting standards in use at that time for the purpose of cross-border listings.

Shortly afterwards, the organisation that set those standards was substantially restructured to become the IASB, with the IFRS Foundation as its oversight body. A further step change in our progress came in 2002 when the European Union decided to require from 2005 the use of IFRSs. On 1 January 2005, around 8,000 companies in 25 countries simultaneously transitioned from national accounting standards to IFRS. A quite remarkable achievement and Europe should be very proud.

Since that point, more and more jurisdictions have come on board and we are now in a position where more than 100 countries are now using IFRS, including two-thirds of the G20. In the last two years alone economies that are now taking their places at the forefront of the global economy, by which I mean Brazil, Mexico and Russia, have

all adopted IFRS as have more established economies such as Canada and Korea.

Given this rapid development, the momentum that IFRSs have built up as de facto global accounting standards is undeniable. Indeed, half of all Fortune Global 500 companies now report using IFRS, a figure that we expect will continue to grow.

Strengthening the institutional base of the IFRS Foundation

Recognising the importance of the organisation to the functioning of global capital markets, in 2009 a Monitoring Board of major public authorities that supervise securities markets was established to further enhance the governance and institutional legitimacy of the organisation.

Given the rapid growth in the use of IFRSs and the growing importance of the IASB as a global accounting standard-setter, the Trustees recently completed a far-reaching strategy review that considered the mission, governance, standard-setting process and financing of the organisation.

At the same time, the IFRS Foundation Monitoring Board, to whom the Trustees report, conducted its own independent review of institutional governance arrangements. Both reports were published jointly in February this year and should be considered required reading for anyone with an interest in the future direction of financial reporting. These reviews will help us to reinforce the institutional foundations of our organisation, ensuring that we are fit for the 21st century and the challenges that it will undoubtedly present.

Of the many excellent recommendations made in the Trustees' strategy review, one of the most important and relevant to today's

theme is the intention to formalise the IASB's relationships with others who are involved in the financial reporting supply chain. There are two main reasons for this.

The first relates to the IASB's ability to create standards that can be applied around the world and without modification. The IASB cannot do this alone. It must find ways to work in close co-operation with the worldwide standard-setting community, not only to tap into the best thinking in financial reporting, but also to make sure that local jurisdictional requirements are fully taken into consideration.

The second purpose is to improve consistency in the implementation of those standards. The IASB has been given the responsibility to develop international standards, but it does not have the authority to say how those standards should be endorsed, implemented or enforced.

This is why we are in the process of establishing a new accounting standard-setters' forum that will bring together important members of the standard-setting community from the different regions of the globe. The group will act as an important sounding board for the IASB. At the same time, its members will support the IASB in its technical work and will provide support for adoption and proper implementation of IFRSs throughout the world.

Regulatory and institutional arrangements

Widespread adoption of IFRS and a strengthening of the institution that sets the standards is only the beginning of the story. To experience the full benefits that IFRSs can offer, there must be mechanisms in place to ensure the full and proper implementation of the standards. Consistency is of the highest importance here, because for each jurisdiction to have its own individual flavour of

IFRS would be little more than a regression to multiple national sets of accounting standards.

As a private-sector, not-for-profit organisation, the IASB does not have the mandate or the resources to enforce and monitor application of the standards that it creates. That is up to governments and financial regulators in individual jurisdictions. At the global level we have IOSCO, which co-ordinates efforts by national and regional securities regulators to protect investors and to ensure the highest quality of financial information.

IOSCO has recently completed a restructuring of its leadership and operational activities. As a former Chairman of the IOSCO Executive and Technical Committees, this is an organisation that I know well. I am convinced that IOSCO can play a leading role in monitoring the implementation of global accounting standards. This is not to minimise the role of other players, such as the auditors and their supervisors, who are today globally organised through a new body, the International Forum of Independent Audit Regulators, or IFIAR, and also organisations such as ISAR

We have already begun discussions with IOSCO about how we can deepen our co-operation. Earlier this year, I travelled to Beijing to attend the annual IOSCO conference, where I had the privilege of joining a panel discussion on international standards. At a technical level, IOSCO's new policy committee on accounting, auditing and financial reporting is well placed to work in close co-operation with the IASB when considering consistent application of the standards. The IOSCO network is also well placed to provide extremely valuable practical input on how IFRSs are working in different parts of the world, which in turn will benefit the work of the IFRS Interpretations

Committee and the IASB's post-implementation reviews of major new Standards.

Support for emerging markets

A single set of global accounting standards means everyone using the same standards, regardless of the size of their capital market. In the last few years, the Trustees have encouraged the IASB to ensure that emerging markets are well represented among the various advisory bodies to the IASB. Many of the world's fastest growing economies can be found in the emerging markets, and we need to make sure that our Standards meet their needs.

In response to requests from the G20, we have taken a number of steps to ensure that the needs of emerging economies feed into the standard-setting process.

First, we have established an Emerging Economies Group, or EEG. This is a very important group. It provides an excellent forum for learning about the challenges that emerging economies can face when applying certain aspects of IFRSs such as fair value measurement. The EEG is chaired by the IASB with the secretariat provided by the Chinese Ministry of Finance. The group has already met on several occasions and the prospects for its developing role are very encouraging.

Second, the constitution of the IFRS Foundation has been amended to take account of a broad range of stakeholders, both by type and geographical location. As a result, emerging economies are well represented among the Trustees, on the Board and in our various advisory bodies.

Third, we have significantly expanded the amount of outreach that we do outside the established financial centres of London, New York and Tokyo.

Finally, we consult with emerging economies on IFRS policy matters. In June last year, the IFRS Foundation held an IFRS International Policy Forum in Indonesia. Representatives from standard-setters, central banks, regulators and governments from more than 20 countries attended the event.

IFRS for SMEs

If you are a publicly listed company, then we are almost at the point where you can use IFRS anywhere in the world. Global accounting standards are very close to becoming a reality. However, despite the importance of such companies, they represent less than 1 per cent of all companies worldwide. What about the other 99 per cent?

Economics does not begin and end with the Fortune 500. In most countries in the world, Small and Medium-sized Entities, or SMEs are required to prepare and publish financial statements in accordance with their national accounting standards– and, in many jurisdictions, to have them audited.

For example, in the European Union there are around 28 million business entities of which, by law, around 8 million must publish financial statements in accordance with their national accounting standards. In Brazil there are 6 million companies that must prepare financial statements. In Hong Kong, there are 9 million. And so on in most countries.

Should such companies be able to benefit from an accounting standards that are recognised the world over as being of high quality? A set of accounting standards that are tailored to meet the needs of unlisted SMEs?

In 2005, the Trustees asked that question as part of their first review of the IFRS Constitution. The answer that came back was a resounding 'yes'.

Shortly afterwards, the IASB began to develop a trimmed-down version of full IFRS, for use by non-listed SMEs and in July 2009 the IFRS for SMEs was issued.

In the three years since the IFRS for SMEs was introduced, more than 70 countries have adopted the Standard or are making plans to do so. Many millions of companies worldwide are now using the Standard, across both developed and emerging economies. The speed at which the IFRS for SMEs has become established is quite remarkable. The IFRS Foundation, through its Education activities is supporting widespread use of IFRS, working in partnership with the World Bank and various development agencies.

The US and IFRS

Returning to full IFRS, while we have achieved a quite remarkable output, I am also conscious of the work that remains to be done. Although a substantial amount of the world's countries have now adopted IFRS, there are still some major economies that are yet to complete their own transitions.

Of those, perhaps the most important is the United States. You may have seen recent debates on whether and how the US will adopt IFRSs. Because the US still represents around one-third of global market capitalisation, we cannot ignore the US if the vision of global accounting standards is to become a reality. A vision repeatedly supported by successive G20 communiqués.

The US SEC has long been committed to the objective of global financial reporting standards and, from the start, has been

instrumental in the success enjoyed by the IFRS Foundation and the IASB. Starting with the Norwalk Agreement in 2002, the IASB and the US FASB have worked closely together on a convergence project that has delivered many positive outcomes.

The US recognised the quality of IFRS when in 2007 it permitted non-US companies listed on US markets to use IFRS without reconciliation. Then, in February 2010 the SEC Commissioners expressed their strong support for global accounting standards and recognised that IFRS was best placed to serve that purpose for US markets. Finally, in July this year the SEC staff produced a report that described various transitional challenges that will need to be considered as and when the US decides to adopt IFRS. Unfortunately the SEC has yet to determine how it will proceed with IFRS, which was disappointing for all of us.

Shortly after the SEC staff paper was published, the Trustees asked the staff of the IFRS Foundation to conduct an analysis of the SEC staff paper within an international context, and last week we published that analysis. It was clear from the analysis that there are no insurmountable issues that stand in the way of the US moving to IFRS. Indeed, thanks to a decade-long programme to converge IFRS and US GAAP, the US is in a much better position than any other country that has adopted IFRS. We very much hope that the SEC will consider positively in the near future a transition to global accounting standards, thus fulfilling the objective reaffirmed by the G20 leaders in each of their meeting communiqués.

Ladies and gentlemen, thank you for your time. We have achieved much in the last few years, but there is still very much more to do. ISAR's support is very important to us.

I thank you for your attention.