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Interview with Hans Hoogervorst, chairman of the International Accounting Standards Board

By Ramona Dzinkowski

On July 1, 2011, the International Accounting Standards Board (IASB) entered a new era with the retirement of veteran standards setter Sir David Tweedie and the appointment of securities regulator Hans Hoogervorst as chair of the IASB. Sir David not only will be remembered in this role by his distinctly Scottish sense of humor and unvarying charm, but also as the outspoken *force majeure* behind the adoption of a single set of high-quality accounting standards around the world. Hoogervorst, past chairman of the Netherlands Authority for Financial Markets (AFM), offers a new take on global standards setting as he provides his views in this exclusive U.S. interview for *Strategic Finance*.

RD: Sir David Tweedie was at the helm of the IASB for a decade and had been the driving force behind the adoption of one set of global accounting standards worldwide. Now that global adoption is progressing well, what, in your view, is the most important aspect of the role of chair of the IASB now vs. perhaps five years ago?

HH: That's a good question. Five years ago, the IASB had just agreed to a Memorandum of Understanding (MOU) with the FASB [Financial Accounting Standards Board] to improve and align IFRS [International Financial Reporting Standards] and U.S. GAAP [Generally Accepted Accounting Principles]. Sir David Tweedie, my predecessor as chairman of the IASB, made the completion of this work to the highest quality, along with encouraging the world to adopt IFRS, one of his highest priorities. Against any measure, Sir David's tenure was a remarkable success. We're approaching the successful completion of our convergence program with the FASB, and more than 100 countries are now using IFRS. My role is to build on the first decade of success by consolidating the gains the organization has already made, completing the transition from international to global financial reporting standards, and enhancing the sense of buy-in and ownership of IFRS among those who are using or planning to use the standards.

RD: You've had a distinguished career in politics, as well as in the regulatory environment, as both the minister of finance for the Netherlands and, more recently, as the chairman of AFM. What different perspective does this bring to the chairmanship of the IASB and to the international accounting standards-setting community in general?

HH: When I was appointed to lead the IASB, I said that I had investor protection in my DNA—mainly resulting from my experience of chairing the Dutch securities and markets regulator.

Despite not being an accountant by training, I've been involved in financial reporting matters for some time. In November 2008, the IASB and the FASB invited me to cochair the Financial Crisis Advisory Group (FCAG), a group of international leaders with broad experience of financial markets, to advise the IASB and the FASB on their response to the crisis. I also chaired the technical committee of IOSCO [International Organization of Securities Commissions] and was the inaugural chairman of the IFRS Foundation Monitoring Board.

These experiences have provided me with a broad perspective on financial reporting policy and have reaffirmed my belief that you cannot have long-term financial stabil-

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ity without the transparency provided by high-quality financial reporting standards.

RD: How will the adoption of one consistently applied set of accounting standards impact the smooth mobility of capital?

HH: Capital is already highly mobile—it no longer respects political or jurisdictional boundaries. Today, large financial institutions operate across multiple jurisdictions and are able to locate transactions wherever they choose. That is why the world needs a high-quality level playing field for global financial reporting. This was very important to me when I was a securities regulator. How can a securities regulator discharge its investor-protection responsibilities when investors are investing internationally? The answer is to raise standards internationally. That's what IFRS does.

The benefits to investors are also significant. Widespread use of IFRS allows investors to allocate capital on an efficient basis without having to apply a premium due to uncertainty regarding local financial reporting requirements. In short, globally interconnected financial markets need a common language for financial reporting.

RD: Can you describe the near-term objectives of the IASB?

HH: Right now we have four priorities. First, we need to complete the remaining convergence projects with the FASB to the highest possible standard and to do so in a way that benefits from the input that we receive from the entire global financial reporting community, particularly users of financial information. These remaining convergence projects represent some of the most challenging

About Hans Hoogervorst

Hans Hoogervorst became chairman of the IASB on July 1, 2011. Until then he was chairman of the Netherlands Authority for the Financial Markets, the Dutch securities and market regulator; chairman of the Technical Committee of the International Organization of Securities Commissions (IOSCO); and cochair of the Financial Crisis Advisory Group (FCAG), an independent body of senior leaders formed to advise the FASB and the IASB on their response to the global financial crisis. He also served as chairman of the Monitoring Board of the IFRS Foundation, the oversight body of the IASB.

Between 1998 and 2007, he held a number of positions in the Dutch government, including minister of finance; minister of health, welfare and sport; and state secretary for social affairs and employment. Prior to this, Hoogervorst was both a member of and senior policy advisor to the Dutch Parliament and the Ministry of Finance. From 1983 to 1986, he was an international banking officer for the National Bank of Washington in Washington, D.C. He holds a master's degree in modern history from the University of Amsterdam (1981) and an M.A. degree in international relations from Johns Hopkins University school of advanced international relations in Washington, D.C. (1983).

areas of accounting standards setting. In most cases there are no easy answers, so receiving high-quality advice from around the world is an essential input to developing high-quality standards. We're well advanced in the remaining areas, and the prospects of convergence are high.

Second, we've begun work on the development of the IASB's post-convergence agenda. We've recently published a consultation document that sets out some ideas but, more importantly, is designed to solicit feedback. We're interested to know what is in urgent need of fixing and how we should best deploy the limited resources at our disposal.

Third, we're keen to assist those remaining major economies that have yet to fully commit to IFRS. There is an enormous amount of support for a single set of global financial reporting standards from the G20 leaders down. We need to be able to harness this incredible support to help us achieve our goal of a single set of high-quality standards.

Fourth, for those jurisdictions that have already committed to IFRS, we will continue to strengthen the IASB's institutional relationships in a way that respects and enhances the independence of the standards-setting process. By that, I mean to deepen our engagement with those around the world who are impacted by our work and to ensure that they have a sense of ownership and respect for the product that we are developing for investors globally.

RD: The U.S. economy is still reeling from the credit crisis of 2009. The banking sector, although far more stable than two years ago, hasn't yet recovered, and accessing credit, while easier than in 2009, is still a challenge for many U.S. companies. Mea culpa isn't something we've heard from the IASB or the FASB on this issue. In your view, what was the role of the standards setters in this and the subsequent strict application of the fair value rule in aggravating the credit crises in the United States?

HH: The Financial Crisis Advisory Group considered this and other issues related to the role of accounting standards in causing or exacerbating the financial crisis. The FCAG concluded that although accounting standards were not a root cause of the crisis, there were areas that did need to be addressed. While there were advocates and critics of fair value accounting on the FCAG, we concluded that while fair value may have overestimated losses, amortized cost-based accounting underestimated losses associated with the impairment of basic loans.

Since then, the Boards have issued a new fair value measurement standard that provides much greater disclosure requirements and clearer guidance on how to apply fair value measurement in illiquid markets. The Boards are also working on a new expected loss approach to loan-loss provisioning.

RD: Emerging influences on the development of IFRS are coming from different regions of the world—Asia and Asia-Pacific specifically. Do you see any major philosophical differences in that group? Would we expect to see the nature of their industry base as the main driver of alternative perspectives on reporting?

HH: We have many new members of the IFRS family, and it is important that their needs are given due consideration as we develop the IASB's work plan for the coming years. It's important that the IASB listens carefully to the views of those economies that are the current engines of global growth, such as Brazil, China, and Korea—as well as the more established members of the IFRS community. Each jurisdiction brings a different perspective. Those economies that have come from a centralized planning model have challenges with related-party transactions, while others may be more concerned with agriculture or with the effects of changes in foreign exchange rates.

The thing to keep in mind is that, while there may be philosophical differences or differing priorities across regions, capital is common across the world. That's why you need a standardized reporting mechanism that provides investors with high levels of transparency and comparability across all jurisdictions.

RD: Emerging economies are fuelling much of the world's economic growth. Many of these economies have significantly different business and legal environments from those operating in Europe or North America. Can you talk to some of the unique reporting issues in those economies and what some of the issues surrounding convergence/adoption are?

HH: You're right that each jurisdiction has different legal and business considerations, but it's difficult for us to take these into consideration when setting accounting standards used by more than 100 countries, each of which will have its own unique business and legal environment. European adoption of IFRS provides a useful case study of how these challenges can be overcome. On January 1, 2005, more than 7,000 companies located in 25 countries, each with its own local accounting standards, business practices, and legal considerations, simultaneously switched to IFRS. In other parts of the world, such as Brazil or Korea, the experience has also been a positive one.

RD: Because the role of standards setting with respect to the development of IFRS is firmly in the hands of the IASB, what role will national standards setters play going forward?

HH: National standards setters have a very important role to play. The IASB cannot hope to engage in a meaningful way with constituents in more than 100 countries for each and every project. I see the development of IFRS as a collaborative effort, and national standards setters are well-placed to ensure that input from stakeholders within a jurisdiction is given due consideration by the IASB. I'm also encouraged by the emergence of regional standards-setting groupings such as the Asian Oceanian Standard-Setters Group (AOSSG) and the Group of Latin-American Standard Setters (GLASS). These groups have the potential to better coordinate regional experiences and viewpoints when working with the IASB.

RD: What are the benefits of a principles-based standard vs. a rules-based standard such as U.S. GAAP?

HH: I am very much in favor of a principles-based approach, but the differences between IFRS and U.S. GAAP in this regard are often overstated. U.S. GAAP is generally principles-based, while IFRS has a fair amount of guidance. This is especially true for standards resulting from our convergence program with the FASB, where the differences in approach are minimal.

RD: This year, the Securities & Exchange Commission (SEC) has promised to provide some direction on the potential adoption of IFRS in the U.S. In your view, what are the potential risks, costs, and benefits of adopting—or not adopting—IFRS in America?

HH: The United States has always maintained a leadership position in international financial reporting. U.S. GAAP has been seen as a gold standard for financial reporting. This is reflected not just in the accounting standards themselves, but in the size, sophistication, and infrastructure of the U.S. market. Clearly, the global economy is evolving, and the adoption of IFRS internationally has changed the dynamics. Even with the emergence of IFRS as the most widely used set of standards internationally, the United States, through our program of work with the FASB, has been influential in determining the path of international standards setting. An inevitable consequence of a negative decision would be diminished U.S. influence, which would be a loss both for the U.S. and for the international financial reporting community.

RD: Some suggest that U.S. business is ready for IFRS as the largest global companies already use the standards as written by the IASB. Is there an overwhelming business case now emerging?

HH: I believe the case for global standards is evident—from an investor protection perspective, from a regulatory perspective, and from a business perspective. It's certainly true that the subsidiaries of many large U.S. companies report using IFRS, and the SEC has significant IFRS knowledge based on the large number of non-U.S. companies listed on U.S. markets that now report using IFRS.

RD: Sir David Tweedie consistently expressed concern that carve-outs and less than full adoption of IFRS could endanger the vision of one generally accepted set of accounting standards used consistently around the world. Can you comment on this?

HH: The G20 and private stakeholders internationally, including investors, have repeatedly called for a move to a single set of high-quality global accounting standards. Different jurisdictions may be following different paths in order to achieve this goal, but full adoption of the standards must be the end point. Our job is to develop the highest-quality standards that we can and to support jurisdictions transitioning to full adoption of these standards.

RD: Do you see any other potential roadblocks to the global adoption? I refer to the contentious LIFO/FIFO [last-in, first out/first-in, first-out] issue in the United States and some of the resistance from certain industry groups around the world to specific emerging standards—leases, for example.

HH: I would expect every jurisdiction to have some form of transitional challenges when switching from national to international standards. This has been the case, particularly when tax rules and financial reporting rules collide. Any transition plan must take into account these issues. **SF**

Ramona Dzinkowski is a Canadian economist and award-winning business journalist living in Toronto. You can reach her at rndresearch@interhop.net.