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This roundtable was moderated by Philippe Mudry, *journalist and Chief Executive Officer of the Agefi.*

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Statement

Maurice Levy,
Chairman of AFEP and Publicis Group

In the name of AFEP, the Medef, Acteo and Middlenext, allow me to say how glad I am that the Board of Trustees of the IFRS Foundation has chosen to hold its meeting in Paris, in this most singular autumn of recent economic history.

All of us are aware of how exceptional this year has been, both in terms of its intensity and because of the impact of the long string of economic events that have marked this year since January.

The themes that were covered during the conference have clear and concrete impact on the economy, growth, the health of companies and their business conditions in years to come. Their effect may be to boost us towards an end to the current financial crisis. Or on the contrary they may drag us more durably downwards. Even someone who thinks of these themes as a minor art, or a compulsory exercise, will agree that financial reporting standards are crucial to evaluating the strength of companies and ensuring sound investor information.

The financial crisis makes this autumn a particularly timely moment to sketch out some perspectives on global standards for financial reporting. In an economic and financial world that can rely on fewer and fewer certainties, a solid set of financial reporting standards that constitute a lingua franca is absolutely fundamental.

Since the creation of the IASC in 1973, various actors within the IFRS Foundation have worked to develop a single set of high-quality global standards. And in less than forty years, the IAS – and later, the IFRS – succeeded in making the IASB the leading international standard-setter. The IFRS Foundation has become a widely recognised and solidly structured international organisation, which interacts with political decision-makers at the highest level.

I acknowledge and admire this superb success and your hard work, and because of this I feel authorized to touch upon the concerns of businesses regarding current trends in the IFRS Foundation's effort of standardisation.

We need to recognize that some provisions in financial reporting standards are not widely understood. They have a destabilizing effect on some companies, in some sectors. Businesses are calling for more responsiveness to their concerns, and for more acknowledgment of their need for stability in their tools and financial communication. This seems to me particularly crucial in the period we are currently experiencing.

I would like to illustrate the concerns of businesses, via three themes.

The first theme centers on stability. Following several years of a very intense effort of standardisation, it is indispensable to stabilise standards. This is even more acutely necessary in this time of financial crisis, when the erosion of fixed points of reference accentuates our need for stable benchmarks.

The goal of global convergence should not overshadow the purpose of financial reporting standards. The purpose of standards is to contribute to financial stability and to the transparency of information, while reflecting the business models of companies.

As we continue to pursue the goal of convergence between international and US standards, amid significant debate on the IASB post 2011 work plan, I bring you this message from French and European companies: they need financial reporting standards to stabilise.

Now that the major topics have been addressed it is in the interest of all that there should be no further fundamental changes in numerous standards -- most of which are currently in application without major difficulties.

This brings me to the second theme: the readability (or as the IFRS terms it, the "understandability") of financial statements drawn up according to IFRS standards.

The development phase can now be succeeded by a phase in which the body of existing standards should be rationalised, with an emphasis on the understandability of financial statements.
Financial statements need to be read and fully understood by investors and entrepreneurs. As shrewd as they may be, they are not always experts.

The nature of the problem can be seen with one very clear signal: the rejection of standards by many small and medium-sized companies, which find them excessively complex and expensive to implement. This should be taken seriously. An effort should probably be made to make financial statements, and the standards that underlie them, easier to grasp by all users and companies.

The potential gap between published financial statements and internal reporting reveals a deeper confusion regarding the value of companies. This is my third theme.

When share prices vary dramatically, we circle back to the question of the relationship between the price and the value of businesses.

Some views have been expressed on the implementation of IAS 39 by some financial institutions, and this raises a problem of principle. We are all aware of the difficulties of working out standards, and the constraints under which standard-setters work. However it seems to us that closer consultation could perhaps assist in finding solutions, notably regarding the application of the "mark to market" rules, whose perverse side-effects were visible in 2008.

The bodies of the IFRS Foundation can take decisive action to ensure proper understanding of value chains, by taking into account the time horizons of companies' management and performance -- clearly distinguishing long-term elements from short-term ones – and by considering also their business models and various activities.

On these three themes – stability, understandability and value – the financial crisis confirms that the solutions adopted must be durable and collective.

Following several years of a very intense effort of standardisation, the IFRS Foundation will continue to face a number of challenging issues as we move into a phase of acceptance and implementation. In ten years' time, will small and medium-sized companies apply IFRS? What about the US? I shall not belabor the point, which is obvious to all of us. At the same time convergence is necessary, and all of us must make an effort to get there.

All these challenges mean that we will probably need to strengthen the links between the bodies of the IFRS Foundation, businesses, and the governmental and inter-governmental sector.

Personally, given the importance of the stakes and the evident rigor and intelligence of the members of the IFRS Foundation, I am convinced that we will find solutions that serve the common interest, creating even greater investor confidence. I am persuaded that standard-setters grasp the significance of financial reporting standards for businesses, and will respond to these issues with the seriousness and efficacy they deserve.

Foreword

Michel Guilbaud,
General Manager of MEDEF,
on behalf of Laurence Parisot

On behalf of Laurence Parisot, I'm very happy to welcome you for this event which is organised jointly by AFEP, Middlenext, Acteo, the Autorité des normes comptables and of course the IFRS Foundation on the occasion of the meeting of the Trustees in Paris. We are pleased to host it in the premisses of the largest business organisation in France, MEDEF, which represents all kind of businesses - small, medium-sized and large companies.

We are concerned with the relationships between the standards that you are in charge of building up and the real economy that enterprises carry on every day. The discussion today will deal with the prospects of global standards and with the interactions between standards and business strategies and practices.

The prospect of global standards raises the issue of the goal of convergence with US GAAP, the other major accounting standards. Businesses consider that convergence should not be an objective on its own, but should pursue the goal of a high quality of standards. This conference is an opportunity to put into perspective the visions of the different stakeholders on what constitutes this high quality.

Companies also wish to highlight the interactions between standards and business strategies and practices. Entrepreneurs consider that international standards should allow for accurate reflection of business performance. They cannot be good accounting standards if they create a divide between internal management of the company and financial communication.

As accounting is the basis for a number of decisions - including credit rating, investment choices, calculation of equity capital ratios - the relevance of selected measurement methods is crucial to restore investors' confidence. In a period of highly volatile markets, the use of fair value raises questions. Companies also agree to say that measurements should reflect their business model.

Let me conclude this very short introduction by a few words on an important forum that will take place in 3 weeks in Cannes just before the G20 summit: the B20. MEDEF together with business organisations of all G20 countries organises this event that will allow companies from all G20 countries to voice their views on leading economic issues. Accounting standardisation is one of the subjects that will be discussed. It is interesting to know that the position of companies from all these countries (emerging countries, American countries, European countries) have quiet similar views on the need for a robust conceptual framework for accounting, the priority place on the quality of standards and the necessary reflection of the economic reality of business.

Before giving the floor to Yves-Thibault de Silguy, the French member of the Board of directors of IFRS Foundation, I would like to thank him for his constant efforts to promote close and constructive dialogue between businesses and International Standards Organisations.

Introduction

Yves-Thibault de Silguy,
Trustee of the IFRS Foundation

I would like to express my gratitude to Laurence Parisot for the words you had from her and for hosting such a major event in the MEDEF auditorium.

As a French Trustee, I am pleased to welcome in Paris my colleagues of the Board of Trustees as well as foreign participants. I am also pleased that the business organizations – AFEP, MEDEF, Middlenext, Acteo – and the ANC have taken the opportunity to organize this event jointly with the IFRS Foundation.

The round table of this afternoon provides the opportunity for an open exchange of views between the highest representatives of the IFRS Foundation and the IASB, senior European officials, and representatives of the private sector - companies and financial analysts -. It is also an opportunity for an exchange of views with a wider range of stakeholders represented in the audience.

I do not wish to start substantive discussions on the prospects of IFRS as global standards and the interactions of IFRS with the companies' strategies and practices». However, I would like to introduce this round table by underlying some issues currently under consideration. This meeting occurs at a particular time for three reasons:

1) The IFRS are becoming necessary

- They constitute one of the essential foundations of a sound regulation. In the period of crisis that we are experiencing, it is essential for markets to have a global framework that ensures the transparency, credibility and reliability of financial information.

- IFRS have become the first international set of standards. They are increasingly used, and we can now consider their application at a global level.

2) International accounting standard-setting is at a critical time

I would like to point out three main elements that should inform views on future perspectives:

– First, the ongoing completion of the IASB work plan (including key projects: Revenue recognition; Leases; Financial instruments and Insurance contracts), which is intended to enhance the convergence between international standards and US standards;

– Some decisions of public authorities to be taken, including the expected US decision on the use of IFRS by US companies, and also the decisions of the European Union concerning the approval of standards adopted by the IASB;

– The recently launched IASB agenda consultation on its post-2011 work plan.

In my view, this consultation raises a number of key questions:

– What are the benefits and the potential problems?

– Do IFRS and IASB projects achieve their stated objective of global acceptation?

– What are their macroeconomic impacts?

– What should be the strategic technical priorities of the IASB for the coming years?

3) To better meet standard-setting objectives and stakeholders' expectations and to adapt to the current context, the Trustees and the Monitoring Board have been working for a year on the governance of the IFRS Foundation bodies and on the standard-setting process. These questions are the focus of the Strategic Review, which is close to finalization.

In all these fields, difficult questions arise. Yet they are of considerable importance for investors, companies, public authorities and other stakeholders. They touch upon fundamental issues:

– neutrality of standards;

– transparency of financial information;

– reliability of financial data;

– how best to reflect the business models of companies with different activities;
– financial stability.

I know that these objectives may be contradictory or conflicting. Moreover we must not forget the costs associated with such standardization efforts.

All this leads me to say that this round table is a unique opportunity. It will enable us to exchange views, to better understand each other and to make progress in the search for balance between different concerns. But we always should bear in mind that, ultimately, transparency and economic efficiency are priorities for all our companies around the world.

The high-quality of standards that we support is notably based on the quality of the dialogue between the standard-setter and the stakeholders, at all stages of project development.
I have no doubt that this round table will contribute to strengthening such dialogue.

Speeches

Robert Glauber,
Co-Chairman of IFRS Foundation Trustees

Summary

Our strategic review raised four major points. 1. The mission of the IASB is to set accounting standards to provide a faithful representation of the financial position and performance as well as to embody transparency and integrity. 2. The governance structure should find a way to preserve the independence of the IASB but also to ensure the accountability of the process. 3. Consistent adoption, application and enforcement of standards are crucial for the success of IFRS. 4. The Trustees should ensure that the IASB's due process is followed.

Question:

What do you think about the importance for your entity to promote worldwide a single set of high quality accounting standards, a goal that the G20 has set as an urgent priority?

Robert Glauber:

As the co-chairman of the Trustees, I would like to thank you for this invitation to this panel discussion.
We have almost completed a one year strategic review looking at

where we have been and where we should be going to. I would like to share with you some of the important points that are in our strategic review, and in particular, what we have learnt from the extensive public consultation that we have launched. We received about 75 comment letters and held several round tables around the world.

I will first summarise very quickly the major points that we have learnt with this review:

- A majority of people agrees that the fundamental mission of the IASB is as follows: setting financial accounting standards to provide a faithful representation of the firm's financial position and performance - to serve investors in making resources allocation's decisions - and to embody transparency and integrity.
- The primary role of the Trustees is to preserve the independence of the Board of the IASB. All commentators agree that the current 3 bodies structure (with the Monitoring Board overseeing the Trustees and the Trustees overseeing the IASB), if properly implemented, is the best way to preserve the independence of the standard-setting function.
- The consistent adoption of IASB's standards, without carve-out, and the consistent application and enforcement of these standards is of vital importance to the success of a global set of accounting standards.
- The need for involvement of the Trustees to ensure that the IASB follows effectively its own due process, and among other areas, the agenda setting and the refinement of the standards.

Let me just briefly discuss each of these points in more details.

Firstly, regarding the Board's mission: The Board's work should reflect the primary importance of the investors' prospective, particularly the integrity of financial statements. This has always been the view of securities investors and securities markets regulators whose job is to oversee those investors and to protect them. It is also the view of the great majority of the commentators on our paper. Prudential regulators giving priority to the market stability have raised an alternative prospective. By this view the extended nature of financial disclosures can contribute to create an excess of volatility of published results and market prices, perhaps undermining the market stability. Those regulators sometimes argue that the disclosures should be shaped to promote market stability.

I am not sure there is really a conflict between these two views. Does it really make sense to believe that modified transparency increases market stability? Do markets behave better when they are sheltered from further information? We run experiments from time to time to find whether that is true.

We have run such an experiment recently. This summer, the European Banking Authority performed a series of stress tests. As you know these stress tests concluded that the vast majority of banks were fully capitalised and healthy. The reality four months later is that we have had serious banking collapses and a statement from the IMF that 200 to 300 billion Euros are necessary to fully recapitalise the banks. The markets facing this have behaved in a way that I would say is extremely unstable, with liquidities being unexpectedly withdrawn from one bank after another. This kind of experience shows that reduced transparency doesn't help market stability, as markets behave very badly in the face of uncertainty.

Secondly, regarding the governance: The role of the governance structure is to preserve the independence of the standard-setting process, as well as to ensure accountability of the process to the public interest
.
The Monitoring Board, composed of a series of public officials, provides the necessary assurance that accounting standards will be accountable to the public interest. At the same time, all commentators noted the importance to protect the IASB from undue pressures. They know that confidence in the standard-setting process can be undermined by the intervention of various political bodies, as it has been the case for example in the United States in the Spring 2009 with the intervention of the US Congress, and six months earlier – in October 2008 – by the European Commission.

Protecting the IASB from undue political pressure is crucial but the voices of public authorities as well as other stakeholders groups are also important to an informed, effective and publicly accepted standard-setting process.

I think it is simply very hard to get the right balance between independence and accountability but this is what we have to seek to do. Perhaps the most important area that has been raised is the role of stakeholders' voices in the setting of the IASB's agenda. Our view is that the IASB should set its own agenda but that it has to listen to the stakeholders' voices. The position we propose, and that we will adopt in our strategy, is a position of responsibility for the IASB to comply (i.e. to accept proposals) or to explain why they are not doing so.

Thirdly, on the issue of consistency: Once adopted, and now IFRS are adopted in more than 100 countries, accounting standards need to be applied and enforced in a consistent manner.

This is not an easy job because we are talking about 100 sovereign nations and coordinating standards' enforcement and adoption is a difficult thing, as any type of coordination across national boundaries.

Nevertheless we think that the consistent adoption – without carve out-, application and enforcement are of greatest importance if we want to have global accounting standards that are meaningful.

I personally think that the idea that has been proposed by the Basel Committee, to use a "heat map" showing where some standards of the Basel's Committee are applied inconsistently to shine public light and attention, is an idea that we might explore with accounting standards.

Finally regarding the due process: We believe that ensuring that the IASB is governed by a due process and rigorously follows this due process are one of the major responsibilities of the Trustees. Our Due Process Oversight Committee has the responsibilities and resources to ensure it.

Let me just finish by pointing out that over the past ten years, the IASB and IFRS have experienced extraordinary success and Europe should be the most proud of that success, since you were the leader in the adoption of IFRS. Some European commentators pretend that the IASB has been less than fully successful ant that it has failed to grow much beyond the initial European adoption. That is simply not true: more than 100 countries have joined, including major countries beyond Europe's borders; studies consistently show that IFRS reduced the cost of capital for countries adopting them and IFRS are considered without question as high quality standards.

Since the due process of the IASB is recognised throughout the world as one of the most transparent and inclusive, in my view and in the view of the Trustees, international accounting standards are a global asset that all of us can be proud of and that must be protected.

Hans Hoogervorst,
Chairman of the IASB

Summary

We understand that preparers do not like earnings volatility, but we do the necessary to limit the volatility when fair value is applied (transfer to other comprehensive income for example). Regarding the financial industry, the vulnerability to volatility is embedded in their business and standards cannot address that. It is rather an issue of a sufficient level of capitalisation.

Question:

A key accounting issue today is volatility. As a famous banker said recently "volatility seems to be the new normality in the financial markets". How do you think this problem should be addressed? Do you think that accounting standards could be responsible for it, as it is often argued?

Hans Hoogervorst:

Volatility and accounting: those are two things that sometimes do not seem to go very well together and there has always been pressure on the accounting standard-setters to reduce or keep earning volatility limited. Executives like to produce steady and predictable figures and the Profit & Loss account is the central performance indicator serving as the basis for both the dividends and remuneration. It is not a surprise that executives hate what they see as accounting volatility that mask the performance of their company. Analysts also are often disturbed by accounting rules that disturb the predictability of their models. Over the years, the accounting standard setters have not been insensitive to the call to address these concerns.

Although fair value accounting has increased in importance under IFRS, the great majority of assets and liabilities are still measured at historic cost; and when fair value is applied, its impact is often limited. For instance by the application of hedge accounting or even more when fair value is kept out of the Profit & Loss account by a transfer to other comprehensive income - a part of the income statement which presented separately from Profit & Loss.

So, we do the necessary to get rid of the unnecessary volatility. At the same time, we have to recognise that volatility, especially in the financial industry which has huge balance sheets, has nothing to do with accounting. It is often deep rooted economic volatility that we are talking about.

First of all, it is not clear that the returns of financial instruments are as stable and are as healthy as many seem to believe. The European debt crisis has shown that there is no such thing as a simple risk free asset and indeed the CEO of German Bank has recently said that "volatility is the new normality". Volatility has become a fact of life and we have better get used to it.

Secondly, we have to recognise that the financial industry, and especially the banking industry, has some serious sources of instability backed into the system. The banking industry for example is highly leveraged and it takes only a 2% or 3% decline of the value of the assets to wipe out all the capital. There is a vulnerability to volatility and there is no accounting standard that can possibly address that. The only way to address that is what the European Union is doing now, which is recapitalising the banks.

Having said that, the IASB will continue to work very closely with the stakeholders to develop new standards and improve current standards, and we are fully aware that standard-setting is much more of an art than a science. We know that there is no one single measurement method and therefore, we will continue to follow a pragmatic course and we will continue to listen to the concerns of stakeholders.

I can come to a conclusion now. My opening remark can be summarised by one single sentence which is accounting should not cause economic volatility but it should also not be used to hide it.

Nadia Calviño,
Deputy Director General
at the European Commission

Summary

Europe took a bold decision in 2005: requiring all listed companies to use IFRS. The European Commission wants to work further with the IASB to support that commitment and we support the adoption of IFRS by as many jurisdictions as possible. But of course the IASB must have the structure and tools in place to cope with its evolution. Particularly, we are convinced that in a fair system, jurisdictions which have not yet completed the adoption process of IFRS should not have the same weight as others, that the accountability of the international standard-setter should be reinforced and that more attention should be paid to the business models and cost-benefit analysis.

Question:

The European Commission is very much involved in the accounting standards and is concerned by the governance of the IASB. What is your view on that matter and what would be the best way to improve it?

Nadia Calviño:

Thank you for giving me the opportunity to share with you some thoughts on the accounting standards and the governance of the IASB. I will also try to make some reflexions about the challenges that we are currently facing specifically in the European Union.

1- Where are we in the process of a global standard?

I couldn't agree more with those that have said that the European

Union's story is a story of success. We took a very bold decision when we decided to endorse the IFRS rules and we have played a very big role. We are strong supporters of the Institution and I think we have shown commitment throughout all these years. Now we are looking forward and we are following with great attention what other jurisdictions are doing in the rest of the world. Many jurisdictions have joined the IFRS and have endorsed the standards, but we are particularly looking at the United States, which should make its decision before the end of the year. We think the time is ripe in this jurisdiction to make a bold decision.

With regards to the US commitment to the IFRS, we think that the focus we had in the last years on convergence should stop. We should now ensure that our standards are the best we could have and we should focus our limited resources in trying to get there. In this process, I think the messages US and other jurisdictions such as Japan will send are very important to allow us to put our acts together and focus on delivering those standards.

2- Where are we in the process of governance of the IASB?

Linked to what I've just said, we think that the jurisdictions which have not yet completed the adoption process of IFRS should not have the same weight in the process as those that are absolutely committed to the IFRS implementation. We think that this should be taken into account in the current discussion on governance and there are different ways to do it.

Someone has talked about the importance of transparency and independence. We think that accountability should be put on the right level too. There has been a lot of progress made in the last years in terms of accountability of the standard-setter. We think we should continue to make progress in this direction. And the ongoing discussion is going in the right direction.

About the process of standards setting, we also have been arguing that there should be an appropriate costs / benefits analysis before a standard is set, and that attention should be paid to the business models underlying the standards. We have to make sure that those standards are implementable and make sense.

These are key issues that should be taken into account in the current discussion on the governance of the IASB.

3- The specific challenges that we are facing in the EU

We are facing many challenges in these days. I hope that the decision that has been taken today by the European Commission to put forward a comprehensive plan to try to address the weaknesses that we have been fighting in the last weeks will put a very important milestone in the process of starting to get out of the crisis. Accounting is one of the issues we have been discussed in the last months. It is interesting to note that when everything goes right, nobody pays attention to accounting, and it becomes a priority when things go wrong.

With regards to the specific challenges of the European Union within the framework of the IASB, we think that the first thing we have to ensure is that we speak with one voice. EFRAG plays a very important role but the national standards-setters are also just as important to ensure that we speak with one voice. We are more and more becoming a global player. We need to ensure that we play the role we should by ensuring that we are listened to, and that is only achieved if we have one clear message that comes out of Europe.

Secondly, we need to ensure we have a consistent application. We have been very concerned, like other institutions have in the last months, by the fact that there seems to be an inconsistent application of some components of the standards. We are supporting ESMA very strongly in its efforts to bring together all the national supervisors to ensure that there is a consistent application of the rules in Europe.

As a final remark, I just wanted to highlight that the European banks have provided many numbers as part of the stress tests performed by EBA, and I do not think that lack of transparency can be one of the issues raised with regards to the stress tests.

To conclude, I wanted to reaffirm the European Union's commitment to continue to engage with all stakeholders and to contribute very actively to the ongoing debate and the work with IASB. This is a top priority for us as shown by the commitment of Michel Barnier, who is personally very engaged in this debate.

Jérôme Haas,
Chairman of the Autorité des normes comptables (ANC)

Summary

To reach the goal of a solid and credible global accounting standard, pragmatism must guide us. It might be going to take a while longer than foreseen. Yet we have already made fast progress, much faster than we could have imagined not long ago.
It calls for us all to maintain a crucial balance-oriented state of mind and course of action: (i) balance in processes, between the global and national standard-setters, so that relevant and realistic, simple and commonsensical standards serve actual needs, and are likely to be understood and properly applied; and (ii) balance in concepts underlying accounting standards, between abstract definitions and the description of actual facts. If these conditions are met, then I am resolutely optimistic about the future.

Question:

As Chairman of the French standard-setter, what is, in your view, the best way to coordinate work of standard-setters at global and local levels ?

Jérôme Haas:

I would use the words "decentralised standard-setting". This would then be my first message today. By those words I mean that standards should meet real needs ; standards constitute a "supply", a product that meets a "demand", a need. This approach is considerably different from starting with a concept and then checking with practitioners if the standard is broadly all right. No wonder that in the latter case, draft standards often create considerable discontent whereas in the former, by attempting to identify needs from the start, standard-setters increase the chances that they will act in a useful manner. Their standards will be well understood and possibly well accepted and implemented by businesses, investors, and regulators. All these actors will then be more likely to understand what the accounts are meant to show. To move towards such change in standard-setting is what is at stake today.

As you can realize, this is not a political issue (even though there are elements of political choices to take into acount, when determining which countries participate in this "global decentralised standard-setting" and in which form, depending essentially on their commitments to the international standard-setting process, in the present times of transition). Nor should this be approached in terms of independance of the standard-setter, if it implies the ability to impose rules according to given opinions beyond their role : accounting is not about twisting, but representing reality. Nor is it a matter of procedures or handbooks. Rather, this is about a state of mind and an attitude, involving a more decentralised cooperative effort between the IASB and the national standard-setters, who look after local realities. They are in charge of elaborating a synthesis of the needs and views of all stakeholders within the same legal and business environment, which remain national all over the world - even if many forms of decision making or framework legislation tends to be more regional, notably in Europe.

We should therefore improve standard-setting in a very commonsensical way, at each step of the process. Concretely, along the lines that I have already discussed with hans Hoogervorst : national standards setters should identify the needs, agree on how to best respond to them, as a result possibly ask for changes in global standards, then scrupulously test the corresponding product each in their implementation environment, eventually adopt it when deemed fit, and finally conduct post implementation review and start again the process if necessary.

My second message has to do with concepts, and the need to revert to a shared set of concepts underlying accounting standards, far from extremes. International standards, used by listed companies in Europe to draw up their consolidated accounts, are no longer strictly legal standards. Yet this does not mean that they should be strictly financial standards. Between these two extremes lies the economy, i.e. the way in which businesses effectively carry out their activities. We must try to come as close as possible to what businesses do, and avoid turning economic reality into abstractions that are difficult to grasp and measure, other than by referring to imaginary markets holding the truth in all circumstances. And financial market based measurement of abstract concepts mechanically lead to volatility in the accounts, and thus "pro-cyclicity", criticised by the G20.

We must thus attempt to simplify concepts and try to find a better balance between a financial approach focussed on the balance sheet, that provides instantaneous (and sometimes liquidative) values and an economic approach, which we call performance-based, i.e. the measure of the difference between what a business earns and what it spends, in its current activities. This is farther from concepts, and closer to cash in a sense. The Trustees of the IFRS Foundation speak well of that balance between both approaches when, in their latest report, they define accounting as both the financial position and the measure of performance.

In order to achieve such balance, we will have to use the right concepts. Take "transparency". Transparency about all daily variations of value based on market sentiments may be of interest, but should not be used as an excuse to avoid a need for strength, reliability, solidity in accounting, based on figures, based on realised and certain facts and transactions. That, as opposed to "pro-cyclicity" of market based measurements, will best contribute to financial security, which is critical today. We should strive for a better balance between the reliability of accounting figures and information given to the markets in the notes to the acconts. We can do that best in a set of principles-based, not too detailed set of standards. That is what in my view accounting is about.

There are several virtues to this search for equilibrium:
• It will prevent companies from ever more explaining their activity through the presentation of a few bar-charts in self made slides, rather than by presenting their accounts based on proper universal standards, which tend to be used in a separate set of documents, exclusively meant to comply with legal requirements.
• It will avoid a growing number of large countries from issuing quite so many reservations and "careve-outs", when it comes to adopting IFRSs.
• It will help avoid discussions that have taken place in certain countries – which have nevertheless adopted international standards

– about the lack of balance I have just described, criticizing IFRS.

• It will avoid the growing tendancy to develop many interpretations world-wide.

Seeking this equilibrium will allow us to create global consensus-based standards that will be better accepted and thus better applied.

All of this bears very significant practical consequences for us all today, when it comes to the next projects and the strategy for the IASB. We will have to make choices.

Regarding financial instruments, for example, following the IASB's and FASB's proposals respectively, we have concerns about several questions remaining unanswered. We must do more to draw the lessons of the crisis fully. In the field of insurance, as no agreement seems to be in sight, we should strive for a pragmatic solution, possibly with options. Some other standards, like Leasing or Revenue, do not seem to respond to a need at all.

In other words, to reach the goal of a solid and credible global accounting standard, pragmatism must guide us. It might be going to take a while longer than foreseen. Yet we have already made fast progress, much faster than we could have imagined not long ago. If we can maintain this crucial balance-oriented state of mind – balance between the global and local poles in standard-setting processes ; and balance within concepts between abstract definitions and the description of realised facts in the elaboration of accounting standards – then I am resolutely optimistic about the future.

Benoît Potier,
Chairman and CEO of Air Liquide Group

Summary

If IFRS as global standards have already achieved many successes, some challenges remain to have principle-based accounting standards consistently applied in all countries. Connection of financial statements with the business of the company and understandability of accounts are key for the development of accounting standards.

Question:

What is your opinion on the objective of the IFRS foundation? Do you agree with it ? What main successes have in your view already been achieved and what do you expect as further progress ?

Benoît Potier:

Before developing my views, I would like to specify that what I will say must be viewed from the perspective of an industrial company and not of a financial institution.

As a first remark, we of course agree with the objectives of the IFRS Foundation to develop in the interest of the public a single set of high quality financial reporting standards provided that they are understandable, enforceable, globally accepted and based upon clearly articulated principles.

I would like to make 2 points: on the global standards and on the interaction with companies' strategies and practices.

1- IFRSs as global standards

The objective of global standards should be to facilitate the comparison and benchmarks between companies.

As far as IFRS are concerned we must say that there are already successes achieved from our prospectives:

- The adoption of IFRSs as accepted reporting standards in many countries across the world – European Union but not only (Canada, Brazil and Japan that is presently considering their adoption).
- The European Union's decision to elect the IASB as its standard setting body, which of course helps the whole process.
- The removal of the SEC reconciliation – i.e. requirement for foreign companies registered in the United States to reconcile their IFRS financial statement with US GAAP.
- More projects are developed jointly with the FASB and the IASB, which is positive.

On the other side, there are also remaining challenges to be addressed:

- The SEC has not yet decided on the adoption of IFRSs. Therefore when we talk to investors and financial analysts, it is very difficult to compare our performance with our US competitors' performance.
- The adoption and implementation of IFRSs have to be homogeneous but are not homogeneous today.
- The agenda for the elaboration of new standards has to be realistic, stable and clearly foreseeable. It seems to us that there are too many projects in the pipeline, currently generating a sort of traffic jam, and we are not sure that the strategic vision that is required at the Trustees' level is there everyday. I think the coherence between a global vision and the related agenda is essential.
- The standards tend to be more and more technical as opposed to principle-based. I think this is a problem because the technical aspects cannot cover what is currently happening in different parts of the world, and because it is becoming more and more difficult for us to implement those technical standards.

We should be careful that a convergence based upon technical requirements only (and not on a principle-based approach) is not able to take into account the local specificities that we have to face anyway. A company like Air liquide is present in 85 countries and we have to deal with issues in 85 different environments. For example, in many countries we have investments in which we have a strong majority but not all the decisions in the shareholders agreements are in our favour (i.e. some of the decisions must be taken on an unanimous basis), then if we strictly apply the standard we do not have the control and then we must account for an equity consolidation and not a full consolidation. It does not fit with the way we do business. And I think this is typically something that the standard-setter has to take into account.

2- Interaction with companies' strategies and practices

We think as industrial companies that our concerns are very different from those of financial institutions and financial companies.

The first objective for us is to have standards that do not prevent us from doing and developing our business and keeping a long term view. The second objective is to be able to manage our risks in total connection with our business cycles with no detrimental impact on our financial statements.

Up to now I must admit we have not faced significant difficulties in what we have to apply except maybe with some hedging accounting rules– but this is not major.

Nevertheless, we have some major concerns.

Firstly some proposed standards may lead to a disconnection between the fundamentals of the business and the financial statements. One good and known example is the leases discussion. We may be faced in our industry to consider some of our contracts as leases; it does not really match with the reality. If this standard is really applied blindly then we will have problems in making business because it will bar us form doing normal operations.

Our second concern is related to understandability: we want our financial statements to be understandable by all stakeholders and not just specialists. Air Liquide is unique and we have 40% of the equity only owned by individual shareholders – 400 000 people who want to understand.

Lastly, we are strongly opposed to the concept that comprehensive income is the fair way to reflect the performance as it is highly impacted by the reassessment at the balance sheet date and therefore for an industrial company it is not the right way to look at the business. We use net earnings, this is the way we want to manage and therefore we need it for internal purposes. We do not want to end up having an internal accounting system and an external accounting system; they must match and they must be the same.

As a conclusion, for the future, we would appreciate that the effort recently made by the IASB to ensure that people who actually use the standards on a daily basis are involved at the initial stage of the elaboration of the standards. Those efforts must be pursued and reinforced.

Frédéric Oudéa,
Chairman and CEO of Société Générale Group and Chairman of the French Banking Federation (FBF)

Summary

Complexity is today a big issue and we should try to focus on having simpler and more user-friendly standards. Regarding fair value, I challenge this concept as reflecting the market volatility in the accounts through one day valuations makes no real sense. On the issue of convergence, accounting and prudential rules are intrinsically linked and therefore cannot be considered independently.

Question:

The banking industry is particularly impacted today by accounting rules. Do you think that the standards designed by the IASB fit properly with the reality of your business. Aren't they too complex ?

Frédéric Oudéa:

I will speak, not only as the chairman and CEO of Société Générale, but also as the former CFO who implemented IFRSs a few years ago.

As a foreword, let me just remind you that one specificity of the banking sector is that we have also to deal with the prudential regulations. There is clearly a strong interaction between the prudential and accounting regulation and the divergence between the two adds to the complexity. Today, there are some requests, for example on the provisioning, to translate prudential rules in a way or another in accounting. So when thinking about accounting, you need to look at both sides.

Before entering into details, regarding the point made earlier on transparency, let me just highlight that we provided EBA with thousands of data. But as a practitioner, I can tell you that too much information kills the information, and therefore, it makes probably the assessment of the situation of the company very difficult.

My first point will be on the complexity of accounting standards.
I have always been sceptical about too much complexity. Hence, when you are facing talented auditors, who are not able to tell you exactly how to interpret a standard and have to refer to other people, you wonder whether you are effectively meeting an objective, which is that accounting should be a language understood by everybody.
For me the complexity of standards is a big issue. To illustrate this point, I would like to take a few examples.

Considering provisions, what we want to achieve from the prudential perspective is to have the capacity to provision in good times and write back this provision when there is a crisis to make the accounts of banks more stable and, perhaps, to avoid some volatility. On the accounting side, the initial proposal of the IASB was very complex because basically each individual loan had to be considered. Therefore complexity was not only on the concepts, but also on the implementation in the system.

Let me also take the example of the goodwill and the valuation of the business, where the concepts might appear simple but may in practice be questionable. I can easily understand the concepts that consist in trying to value each asset or a group of assets according to future cash flows. But in practice, the results depend so much on certain criteria that they are pretty difficult to analyse. Thus I am wondering whether the previous standard, consisting in amortising the goodwill on a 20 year period, for example, was not simpler and in a way more conservative than the current situation. I think we should try to focus on having standards that are simpler and more user-friendly for all stakeholders, which are the people who are dealing with and managing the business, as well as analysts.

My second point is on the concept of fair value.
I had recently an interesting conversation on the crisis with a German CEO, physicist by background. He told me that what he observes as a physicist is bigger and bigger oscillations, which are more and more frequent with no protection. Hence, the stake with the crisis is to try to

reduce the oscillations by acting on their frequency and putting some firewalls, as you have in a ship to prevent from sinking.

From that perspective, the concept of fair value has always been a challenged topic for us.

Again, let me take some examples. The accounting of the own credit spread, currently reviewed by the IASB, that requires to account for profit when your credit is deteriorating, is disturbing and does not provide any added-value to the assessment of the performance of the company. Regarding the loans, there have been debates on having a fair valuation of loans that we keep, which are today accounted for on an accrual basis. If there is no issue on providing the loans' fair values in the notes, I really doubt that a fair value measurement of such loans in the accounts has any sense.

I understand that markets are intrinsically volatile, nevertheless I am wondering whether accounting should just reflect this volatility or should try to limit - to a certain extent - that volatility, because at some point one day valuation make no real sense.

Then I would like to close on convergence and comparability.

We are willing to achieve convergence but I think we cannot move in the banking sector on the accounting side if there is no more convergence on the prudential side.

From that perspective we are not very close to convergence. Just on Basel III there is a big question mark: whether or not the rules will be implemented everywhere in the same way and within the same timeframe. Already today on Basel II, some rules on trading assets might only be applicable in the US by the end of 2012. I personally think that we are moving in a fragmented world, and that the date of the convergence on the prudential side is not clear.

On the accounting side, there is one big difference between IFRS and US GAAP regarding netting of assets and liabilities. Providing the information on this difference in the notes may not be enough because prudential ratios take into account the balance sheet figures only, and users of financial statements may not notice this differentiated accounting treatment. Therefore, we have to ensure that there is more convergence regarding this issue on the accounting side, if we want also to move forward on the prudential side.

Pascal Imbert,
Chairman of the Managing Board of Solucom and Chairman of Middlenext

Summary

IFRSs have become too complex and too expensive for mid-cap firms, and their unstable nature blurs both our points of reference and our financial communications. What is most annoying, however, is that IFRS financial statements are getting further and further away from the economic reality they are supposed to represent

Question:

As soon as mid-cap firms are listed, they must apply IFRSs. This is the case with Solucom. How do you feel about these standards and do you think they are appropriate for the mid-caps that you represent?

Pascal Imbert:

First of all, I would like to thank the IFRS Foundation and the IASB for coming today. I very much appreciate this, especially considering that we often feel that we are not being sufficiently heard.
I'm sorry to report that mid-cap firms take a very dim view of IFRSs. But I would hasten to ask you to take this opinion as a positive contribution to your discussions.

Why do we have such a negative vision of IFRSs?
- First, we think that IFRSs are too complex and too costly for mid-cap firms like ours.
- This complexity goes hand-in-hand with major instability, which blurs our points of reference and complicates our financial communications.

• Finally, and most importantly, these standards are taking us farther and farther away from the economic vision we have of our business activities. This is profoundly disturbing, as we are slowly forced to adopt a double reporting system so that we may have relevant in-house indicators, which are different from those that we provide to the market.

Allow me to expand briefly on each of these points.

1- Expensive and complex standards

This has already been spoken about a great deal, but I would like to stress the point that applying IFRSs is so complex for mid-cap firms that it is impossible for us to produce and manage our accounts in-house. We are forced to bring in external specialists to draw up our indicators and financial statements, which makes things more complex and incurs additional costs. It is not only top management that loses control of the preparation of its financial statements, but the entire management team, which doesn't understand them at all. We then have to train management in order to explain how our activities are expressed in the statements. I heard Frédéric Oudéa point out the same gap, which makes me feel less alone.
Fundamentally, despite all my efforts to understand what is going on in the financial statements, I'm starting to lose touch. We must put an end to this growing complexity and the loss of control that comes with it. It's not good that management cannot understand the financial statements that are prepared for the market.

2- Unstable standards that blur our reference points

The instability afflicting standards today, due to never-ending alterations and adjustments, increases their complexity. If standards were fixed, we could eventually find points of reference that would allow us to understand them better. However, this is not the case. We hear the same thing from analysts and directors of mid-caps. They don't have enough time to take in the complexity of the information provided by businesses. Financial communication is truly suffering.
We were expecting these international standards to provide better comparability of accounts thanks to a shared, stable set of reference points. What we got instead, due to this complexity and instability, was an excessively financialised view of the accounts and a loss of visibility of our original points of reference. For example, the IFRSs did away with the good old notion of operating profit. But managers need this

sturdy structural performance indicator. Everyone is attempting, each in his or her own way, to reinvent this concept to offset its absence. Thus, for the moment we are getting the exact opposite of what we were expecting.
If the IASB had actually wanted to cripple the financial communication efforts of mid-caps, they couldn't have picked a better way. The IFRSs have not facilitated relations neither with our investors nor with our individual shareholders. Nobody can imagine the CEO's loneliness when it comes to explaining the accounts to individual shareholders.

3- Standards that are far away from the economic vision of our activities

The financial image provided by accounts prepared under IFRS is increasingly at odds with the industrial version we have of our activities – and the vision that investors need to have when reading the accounts we provide.
This is definitely my biggest grievance. Let me give you several examples:
• Observing a loss in value on the deposit that I left with my lessor, and then recovering financial products over nine years – what good does that do?
• Considering that the treasury shares that I use to operate my liquidity agreement alters the level of cash availability in the firm and generates transactions makes no economic sense.
• Accumulating the goodwill of acquired firms and then recording an impairment that is difficult to assess and thus approximate if the economic climate changes does not reflect the reasoning I use when I acquire a firm.

Moreover, I am quite troubled by current standards projects with respect to leases and revenue recognition. This concern is real, and I am being much more moderate than many of the members of my association and our advisors.

International accounting standardisation is an important goal, and one which concerns us most of all. Let me remind you in this respect that mid-caps represent 85% of the companies listed on the stock exchange. Currently, these standards are a deterrent for mid-caps that are hesitating to enter the regulated markets, which prevents them from finding financing under good conditions and boosting their growth.
It is up to you to hear us and taking account the concern of 85% of listed businesses, which embody the best of the real economy!

Ibra Wane,
Chairman of the French Society of Securities Analysts (SFAF)

Summary

Analysts have special needs in terms of accounting. They need stability of the standards, a better segment reporting, a sanity check of the concepts used by the standard-setter so that they are really relevant to users and lastly, sufficient granularity of the information provided.
Besides, it should be said that full fair value accounting is unhelpful and is not predictive. This is why we favour a mixed approach regarding measurement.

Question:

Do you think that your views regarding the accounting schemes are properly taken into account by the IASB?

Ibra Wane:

I knew that it was not going to be easy to be the last one to speak but after M. Imbert, it is especially difficult. But, let me try to present the views of SFAS.

The accounting doctrine of the Société Française des Analystes Financiers, which counts 1,600 members, has been led for years by our Accounting and Financial Analysis Commission. This Commission actively works not only with French organisations, but also with various user panel of international bodies such as EFRAG, ESMA or IASB. Furthermore, Mr de Jacques de Greling, who co-chairs our Commission with Mr Bertrand Allard, is also vice chairman of the EFFAS Financial Analyst Accounting Commission, which gives more weight to our opinions, as the European Federation of Analysts Societies represents 27 countries across Europe.

The first message that I would like to convey to you is that, without being accounting professionals, financial analysts' particular needs deserve to be heard.

Equity analysts are above all valuation experts as credit analysts are above all debt experts. Before delivering forecasts, valuation models, recommendations or debt rating, they imperatively need to take into account the economic environment, the characteristics of given sectors, the competitive position of a company and the reliability of its management etc...Ultimately, it would be risky to say what portion of their daily work is strictly dedicated to accounting aspects, but this is for sure a minor part!

So clearly, our mission is different from accounting, but not secondary, since it is no more and no less than to interface between companies and the market to provide financing.

A few months ago, I used this same language at the annual conference of the French statutory auditors, where, beyond the accounting aspects, I specified the four golden rules for a proper valuation:
1. To carefully consider the stages leading up to the strategic analysis and to the economic performance;
2. To monitor the comparability and consistency of the indicators we use;
3. To ensure that parameters are independent, because no matter how many methods you use, if they refer to the same parameters, the results will be close;
4. To make sure that the assumptions are plausible, as the beauty of a valuation is to compare your assumptions to those used implicitly by the market.

With this in mind, let's talk now about our specific needs in terms of accounting. To keep it short, I will focus on three priorities: we need stability, granularity and detailed segment reporting.

- Standards and presentation options must be stable because the essence of our profession is to make comparisons over time. A company that would change its reporting too often would hardly maintain its credibility. I am thinking of a European telecommunications company that has changed its segment reporting every year since adopting IFRS 8: this is unacceptable.

- Next, we need a reasonable granularity. When we look at the income statement "by functions" rather than "by nature" of large corporations, too often we go from revenues to operating results in three lines. Or, in the cash flow statement, too often we have something like: net result + depreciation and amortisation + change in WCR and an enormous catch-all named «other non-cash items».This, too, is not optimal.

- Lastly, detailed segment reporting is needed because the other essential aspect of our profession is comparisons in space; that is to say with other companies, which is where the added value of an experimented analyst stands.

These comments might seem obvious. However, their implications are far from being insignificant. For example, if, we summarise what is at stake with the current IASB financial presentation project, from an analyst's perspective, it essentially relates to increasing the granularity of information where needed, rather than introducing new, unhelpful concepts like comprehensive income or the direct cash flow method.
We also have requirements with regard to the convergence of accounting standards. By principle, we are very open to convergence, as it should help us to better compare companies on both sides of the Atlantic. But, the devil is in the details. I'm thinking in particular of the promotion of the management approach for segment reporting, which has shown its limits even for the US analysts. Why converge downward? Convergence must be done for the best and not for the worst!

In the aftermath of the financial crisis, fair value has become a hot topic. This issue should be addressed without being dogmatic. Generally speaking, analysts do not want fair value for operational items, because they do not consider a company as a collection of assets and liabilities to be valued independently. Analysts are more interested by future prospects.

The starting point of their process is to assess not only the current, but above all the future earnings capacity of a company and its free cash flow strength. In this context a full fair value accounting is unhelpful as it is not predictive. All the while they recognise it may have a legitimate place in financial instruments, even if not universal. That's why they are much more inclined towards the IASB mixed approach, than the full fair value of the FASB.

In short, accounting standards, which determine the quality of the financial statements that we use on a daily basis, must be based on rigorous concepts. But, a «sanity check» of these concepts must also allow them to be relevant for the users.

My different remarks must be put in their proper context. The implementation of IFRS has represented major progress on many essential points, like the conceptual framework, international comparability or the reintegration of off-balance sheet items. That is why our support is clear, faithful… and therefore exacting.

To conclude, financial analysts, which interface between companies and the market, have particular accounting needs which deserve to be heard. And to memorise their main requests, let me wrap them simply: a triple S for stability, segment reporting and sanity check, and a G for granularity.

I will conclude by a threefold appeal to the accounting bodies, our employers and issuers:
1. to the accounting bodies, I will ask them to further intensify the dialogue with the analysts' societies which respond on a regular basis to their consultations. These voices are rare - not much more than 5 analysts' societies worldwide - which is a special reason to give them a greater attention. Especially for those already using the IFRS.
2. to our employers in Continental Europe, I will remind that this accounting discussion relies on a handful of volunteers. It would be fair to give more recognition to their responsibility to make sure that the European voice continues to be heard in this convergence process.
3. lastly, to issuers, I would like to say that their efforts with regard to financial statement quality are not wasted as it is a matter of credibility. This may seem impalpable, but it is nevertheless at the very core of the notion of credit, which comes from the Latin credo, «I believe.» and for a public company, credibility is a bit like like oxygen, you can't see it, you can't feel it, but when it's gone, this is too late.
nications.

Steven Maijoor,
Chairman of European Securities and Markets Authority (ESMA)

Summary

The correct application of IFRS is first of all the responsibility of the issuers and their auditors and then the responsibility of the national enforcers. ESMA has a mandate in terms of consistent enforcement and it is very important for it that financial institutions are consistent in their valuation of sovereign debt.
Regarding the governance of IASB, ESMA which corresponds to the largest area with the highest number of entities applying IFRS, should be represented in the Monitoring Board.

Question:

As the chair of ESMA, please tell us about the problem of exposure to sovereign debt that is becoming very urgent. How do you think it should be settled in Europe?

Steven Maijoor:

Thank you for this very straightforward question. I would like to reflect on two issues. Basically, first on the issue of what is the role of ESMA in financial reporting in Europe, and secondly, briefly on the governance of the IASB.

First of all, ESMA and the IASB have a lot in common. Transparency and investors' protection are important, joint and common objectives. They drive much of our work.

During the crisis, both the IASB and ESMA were under pressure. There were high expectations regarding our roles and the stability. A specific element for ESMA was that stability, in addition to transparency and investors' protection, is part of its objectives. So in that sense, there is no true breach model in Europe.

Second, I think the adoption of IFRS in Europe has been a very good step. We have moved from a patchwork of national accounting systems to this joint language and, as a result, the information position of the investors is better and investors are also better able to compare the various issuers they would like to invest in. Some sort of academic work has confirmed these benefits of IFRS in Europe. Then, I would like to refer to those countries that are in the midst of considering adopting IFRS. We in Europe have taken the decision to move to IFRS and looking back, I think it has been a very good decision for Europe.

Regarding the role of ESMA in financial reporting, I would like to emphasise that the correct application of IFRS is first of all the responsibility of the issuers, of their auditors and of the national enforcers - a kind of the first line of defence in term of the enforcement of IFRS.

However, ESMA has a mandate in terms of consistent enforcement of those national enforcers across the 27 Member States. So the first responsibility is for the companies and their auditors, then for their national supervisors and after ESMA has a role in terms of consistent enforcement. And we started that process already in 2003. There were sessions within the so-called European Enforcers' Coordination Session. National supervisors brought up enforcement decisions, or discussed before decisions were taken, and also after the decisions had been taken. So in that sense, ESMA represents the widest community of enforcers of IFRS across the world. However, the new ESMA model, which is in place since the 1st January this year, provides virtual possibility for ESMA to have a role regarding consistent application of IFRS and consistent enforcement of IFRS within the ESMA regulation. There is the so-called possibility of an opinion: it is that the board of the national supervisors takes a decision that says there is an opinion on the proper application of IFRS in a specific case. The opinion is the first possibility. There is also a heavier procedure, which is called "breach of union law procedure", and then we have more possibilities to make sure that there is a consistent enforcement.

As we all know, at the beginning of the financial crisis, there was a lack of transparency regarding the so-called subprime mortgages, the financial instruments based on the subprime mortgages, and this created uncertainty and distrust among banks. Response at that time -

CESR played a role in that - was that there should be more transparency around these financial instruments related to the subprime mortgages and around those financial instruments traded in illiquid markets.

In more recent months of course, the lack of transparency related to the exposures to sovereign debt is generating new suspicions about the conditions of individual banks and I think this requires a similar answer in terms of transparency. So there were reasons for ESMA's public statements in July stressing the need for an enhanced transparency regarding sovereign debts exposures and there have been already discussions about disclosures. In addition to ESMA, the European Systemic Board has made a similar statement, asking for a transparent and consistent valuation of sovereign exposures.

As you understand, we are now looking closely at how our banks are applying IFRS for the valuation of sovereign debt. It is very important for ESMA that financial institutions apply IFRS correctly and are consistent in their valuation of sovereign exposures and this specially holds for the upcoming annual financial statements.

In addition to transparency, of course, we also need to realise that financial reports are not only used from a transparency perspective, but they are also used to determine the profits of an issuer. This might have an indirect effect both for example for the dividends that are paid to shareholders and bonuses to the employees.

Finally, briefly on the governance of the IASB: ESMA has been very supportive and has actively contributed to the review of governance of both the Trustees and the Monitoring Board. But let me turn to the sense of issue of this one: the representation of the European Union in the Monitoring Board. Obviously, ESMA fully acknowledges the important role of the European Commission regarding the financial reporting in Europe and it strongly supports the membership of the European Commission in the Monitoring Board. However, ESMA brings together the securities regulators that are by far the largest economic area with the highest number of entities applying IFRS. I think ESMA should be around the table alongside the European Commission and the US and Japanese securities regulators who are ESMA's overseas counterparts. They are presented even if IFRS have yet to be adopted for domestic issuers in these countries. So to some extent, the securities regulators with the most extensive experience of IFRS enforcement are not represented on the Monitoring Board. So, I am very much looking forward to know about the final outcome of the reviews.

Panel discussion

Journalist

Consistency is a very big issue for the time being especially as far as sovereign debt is concerned. You sent a letter to ESMA to express concerns about the way the European banks have carried out impairments on the Greek assets following the political agreement of July.

Many people have been surprised by this initiative and some thought you exceeded your mandate. The impairment of Greek assets held by the European banks were very different from on country to another, and some choose write-offs at the fair value, others preferred to have an impairment of 21% grounded on a political agreement at the highest level on 21st of July. So could you explain to us how the problem has to be tackled, and I am very interested to know the position of ESMA on this issue because it is still a concern since the third quarter results are to be settled now.

Hans Hoogervorst

First of all, for the credibility of IFRS standards it is important that IFRS are applied consistently around the world. A lot of people around the world, who are not sympathetic towards IFRS say "oh yes, they say that they apply IFRS but in reality everybody is just doing his own way".

What happened was that we received clear indications that in this case, the Greek sovereign debt, banks applied IFRS differently around Europe. And we felt in our duty or at least possibility to simply write a letter to ESMA, who is responsible for the enforcement in cooperation with the national regulators to pay attention to this: "Please be aware that this is happening and we would really appreciate if you do something" and this is all what we did. This is not different from an ordinary person who sees that certain rules or laws are being broken and not applied correctly and calls the police "please do something about it".

Journalist

M. Maijoor, what is your view on this topic?

Steven Maijoor

Well, a couple of points on this issue. First of all, the consistent application of IFRS is extremely important and the problems that were observed by the Chair of the IASB are there. It is a very good sign that he sent me a letter. We could have argued that the letter should have gone first to the national supervisors and maybe even to the audit firms. Of course, we are somewhere further down the line and the first responsibility for consistent reporting is by the issuers themselves, by the audit firms, by the national supervisors, and after by ESMA. But clearly, this is an important issue for ESMA. Consistent reporting on this issue needs to be achieved. Consistency is our goal. We are now looking at the interim reports, and as I said, it will be important to achieve consistent valuations at the end of year.

On the third quarter reports, ESMA and the national supervisors have no power regarding the reporting side. The third quarter issue is a transparency issue and the accounting is not under supervision, either by the national supervisors or by ESMA.

Journalist

The issue is that some banks relied on a political agreement to have their impairment and some other on the fair value. Where is the truth, then?

Hans Hoogervorst

All we can do here is to rely on the standards and the standards do not say you can rely on a political agreement. The standard says when there is impairment, and there has been clearly an impairment here, because there was a restructuring of the Greek debt. Using our rules, you could have concluded before that the Greek debt was impaired.
If there is an impairment you have to apply market value, if assets are being held available for sale, you have to apply market value not political agreement.

Market value at that time was not 21% discount. Any bank that wanted to buy from me Greek debt with 21% discount, I can do good business with them. Market discounts were far sharper and, if there had been differences between 41% and 51%, not one hair of my head would have thought to send a letter to ESMA. But the difference between 21% and 52%, or whatever it was, was simply too important.

Journalist

Do you think that there should be some kind of a judge of last result on this type of topics?

Hans Hoogervorst

Yes, and this is the one who I sent a letter to. It is true that ESMA itself is not responsible here; it is more the national regulators. But I knew that sending a letter to ESMA would get to all national regulators.

Jérôme Haas

I just want to react on this. From what I have seen, it is critical to make clear that the implementation of the standards that was made was very strict. It was based on what the IAS 39 expresses as the need to take into account that markets can be inactive. In this regard as you know, the transactions on Greek debt by then amounted to 2% of the level of transactions of the past ten years and the number of actors was extremely small. That was obviously not a situation meeting any criteria of what is an active market.

Consequences had to be drawn, and it was apparently done by the book. Indeed in such situation, faced with an inactive market, you have to move to a different approach. Therefore calculations had to be made, according to the applicable standards, to produce the best approach to the value of the items. No surprise that the calculation ended up close to what had been negotiated a few days before publicly, based on a valuation of the same items by the same actors at the same time. We witnessed a hopeful consistency between the statements made one day by banks to the 27 EU ministers and the presentation by the same banks of their accounts to the markets, only some days later.

The lesson of the story is clear : stay factual, be faithful and precise. If you base your valuations on illiquid markets one day, you're wrong the next day. If you base your valuation on facts, as it happens that the standard asked you to do, you're right because you're saying things that are reliable, true, that you can document and demonstrate.

Be as factual as you can, don't import speculation in your accounts. Let's try to have in the accounts figures closer to the real time frame of the economy than to instant valuations.

Furthermore, I'm sure that if we look at the circumstances, institution by institution, with Hans, with Steven Maijoor, we'll be in agreement because consistency means that in similar situations, you make the same choices. European banks were not all in similar situations. Let's look at exactly what happened in the past years bank by bank and what each regulator has said bank by bank, year by year.

Journalist

Another major topic is convergence. I would ask you M. Glauber, as an American citizen and as the co-chairman of the IFRS Foundation, do you think that the United States is going to join? Moreover, considering the main topics still open for discussion (lease accounting, revenue recognition, insurance and financial instruments) can any breakthrough be expected before the 31st December or would it have to be postponed?

Robert Glauber

Regarding the second question, I will let Hans talk about that because we are not in the business. On the issue of adoption, it is crucial that the United States adopts IFRS in a clear manner and does so this year. I think the US is likely to do it. It will probably use an incorporation mechanism or an endorsement mechanism as used by most of the countries including the EU, Canada, Australia and that would be, in my point of view, very good. Just to relate to the previous discussion, it is important that the whole issue of consistency of application of the standards is in the mind of the US when it considers the issue of adoption. Critics of the adoption say that these standards are not equally and consistently applied, and therefore that it is unwise to adopt these standards. I think that's unfair, but it is crucial that they are applied and adopted consistently if it is going to be effective, global, consistent set of accounting standards. So I am optimistic it will happen. Again the issue of consistency is of a tremendous importance.

Journalist

But do you expect any major progress before the 31st December?

Hans Hoogervorst

It is clear that we have not completed all the convergence projects but both the European Commission and the SEC have asked us "please slow down because it is too much for businesses, for preparers, to adapt to all these projects and new standards".

When I asked the SEC "does it mean that if we do not complete all the standards in time, it will not be a negative decision to adopt?" and they confirmed that "yes, you can take your time. We think convergence is going well and a fact that you don't complete everything on time will not negatively impact our decision to adopt".

Nadia Cavino

Indeed, we would be happy to have some peace in the system. We shouldn't be producing too many standards and changing them too often. From this perspective a clear guidance should be given by the Trustees.

With regards to the two key standards which are pending, we think they should be finished as soon as possible. We agreed on the postponement until the end of the year but we do not wish a further delay because of the legal uncertainty that this creates.

Journalist

Several panellists express their views on the complexity of the accounting standards. Mr. Hoogervorst, could you comment this specific issue?

Hans Hoogervorst

Oh well I am glad to answer this question because this is one thing I am sympathetic towards it: complexity of our standards. This morning I was reading papers for the board meeting next week and especially papers on the crucial residual value of leasing assets. They are tough stuff to read in your hotel room and in between travels and jetlags but I think that even if you are completely rested at home, they are still tough to read.

I do think we probably have a tendency to get everything precisely right and we might end up by doing something overly complex. So we need to take a serious look at that.

Another problem that really comes out of our work is good attention to users. We want users to have as much information as possible that is why in every standard we require a lot of disclosures which make a lot of sense by themselves. But when you look at the adding up of all these disclosures making the reports extremely voluminous, you may think we are missing the purpose. So I really do feel sympathetic to this problem.

Journalist

And how could you cope concretely better with the problems of the SMEs? I understand that you are working on the implementation process of IFRS for SMEs. How could their problems structurally be better taken of?

Hans Hoogervorst

We do have a separate set of simplified standards for SMEs, but this is not very much helpful for those who are publicly listed. So, I agree that does not help you very much. I think the only thing that we can do is to have an overall view to see what we can do to reduce complexity. For example, EFRAG is also looking at methods because we do not do all the work alone. We are co-operating with national standard setters, with EFRAG, with people and their firm in the ground, and they are looking for methods to reduce the volume of disclosures without getting rid of this information that can be extremely useful.

Jérôme Haas

On this topic, we have been working for more than a year now, together with Middlenext which is chaired by Pascal Imbert and his counterpart in Germany and in the United Kingdom. We have come up with a proposal, which is really ready for use. It consists in alleviating tremendously the size of disclosures, because we have identified this as being the main problem for Pascal Imbert's peers and for him; without touching the quality of the standards themselves i.e. to what is in the balance sheet and what is in the P&L.

I can testify that Pascal Imbert counterparts are much more vocal than we are. Most of them would like to get rid of IFRS, if I may use their words, but it is not what we are proposing now.

We are making a totally different proposal which is to keep IFRS for them, but to try to alleviate it very much. We have tested these proposals with market regulators, with auditors, with businesses, and with financial analysts. It has been given to the European Commission and it is ready for use. Listening to Pascal Imbert again today, I think there is an urgency to move and adopt the proposals, to possibly improve it, it can always be improved – but move forward. I think that we have made a tangible contribution to that problem, trying to put forward very concrete proposals and concrete improvements, away from complexity and concept. In the wake of what I said earlier, I believe that this is what we need.

Pascal Imbert

I appreciate your concern and your work, Jérôme, and I agree that this is an urgent matter. I would like also to point out that we would appreciate if issuers and SMEs were more represented in all the committees, which are working on the standards. We think that we are not heard and that nobody listens to us.

Hans Hoogervorst

I do not think that this is really true. We do listen to preparers very well and they are motivated. They know very well their businesses. They know how to verbalise the problems. They know how to reach us.
For the investment community, it is often much more difficult. Lot of investors are individual investors. They do not know how to find a way to IASB and often are not in the circumstances to voice their opinion.
So it is not true that we do not listen to preparers. It is often more true that we find it hard to hear the voice of investors.

I can imagine very well from the preparers' point of that all our requirements are a lot of troubles for them. But there is a huge price to get back. I was at a conference of institutional investors in the US, two weeks ago, and they were being given a question: "how important do you think financial reporting is to you? And could you grade it from one to five- one being extremely important?". 60% of the people voted for one.

The rigor that financial reporting gives, is of an immense value to you because it gives confidence to investors. This is the price you get back for all the work we put you trough, which I acknowledge.

Pascal Imbert

I just wanted to add that we do not feel comfortable with the word "preparers". We are also "users" of the financial statements.

Nadia Calviño

We are looking at the legislation in order to reduce the burden for SMEs. We are aware of the challenges and the additional burden in particular when we are talking about listed companies. But it is also important that we do not marginalise SMEs by reducing the standards of transparency and clarity about the financial statements, because the investors need to have legal certainty if they invest in companies. Lack of transparency is probably not the right way to go. Proportionality is the right word to use here. We have to make sure that we strike the right balance between these two objectives.

Ibra Wane

I would like to add some few words, to say that within SFAF, we are very sympathetic to SMEs. Every year, we organise something like 700 meeting with companies that is to say we go far beyond the CAC 40. But, even if we admit that IFRS are a progress, it would not be reasonable to oblige SMEs to adopt tools that are too sophisticated or too costly. So, we think that this initiative to have a dedicated set for SMEs is the right direction but I would like to insist that this set of standards for SMEs should not be watered down regarding comparability or segment reporting.

Yves-Thibault de Silguy

I have two questions for Mrs Calvino. Firstly, does the Commission have the intention to homologate the last series of standards published by the IASB just before the summer? Secondly, concerning the governance, your Commissioner, when he came into duty, said he wanted a strong reform. We have been working on the strategic review for one year and we are close to finish. We can already see the new axis of the reform. Does the Commission have the intention to make proposals regarding that matter ?

Nadia Calviño

We are committed to endorse all the standards prepared by IASB. I think the frequency of us endorsing has to do with the frequency of them producing. We intend to endorse whatever is produced but we have to go through EFRAG's consultation and other procedures first. I am not aware of any decision of the Commission not to endorse or to stop the process. Whatever is elaborated by IASB will be endorsed by EU following the procedure.

About governance, Michel Barnier has always been a very strong supporter of the review of the governance process. We think we are going in the right direction, which is clarifying the role of each different player. It is a quite complex structure, but probably the one we need. We think we're going on the good path in terms of accountability, transparency and in terms of ensuring that the quality of the standards is maximum. There are two or three issues to be finalised, including what representation should be given to those jurisdictions which have not endorsed the standards or are in a process but cannot ensure the timelines of the endgame of that process? It is currently discussed. When these issues will be finalised, we will of course support the process and make the appropriate decision in this regard.

Jérôme Haas

I would like to say two words about the standards in the pipeline.
The first word is to say that I am struck that you have in the pipeline one standard that Benoît Potier alluded to, which has to do with joint ventures, which if I understand properly, has the implication that joint ventures will no longer be accounted for in the accounts, which is something, I must say, I still fail to fully understand and grasp, both the causes and the consequences. So, that is typically a question, in which as you said Nadia, the endorsement process is under way. But, the questions will have to be raised in that context, to have the best understanding of he stakes.

And, you have also IFRS 13 which is inside what I call the Bermuda triangle of what needs to be done in terms of financial instruments accounting : both in terms of substance, and in terms of level playing field, if we did not agree globally on accounting for financial instruments. So we still have a lot to do and discuss about these standards.

Patrice Marteau

I am happy to see that we share our concerns with the international standard setter regarding complexity. Why don't we try to find a new way in doing the standards: starting from the reality of businesses and reflecting it in the standards, and not the other way round? Moreover, I see two major risks. First, I am afraid that we could not avoid to add some complexity if we move towards US GAAP, which have more than 2 000 pages. Secondly, we would like to avoid that all difficulties we have to compromise to be solved by additional disclosures, as we are today at an amount of pages that are not read any more.

Hans Hoogervorst

First of all, let me say we have always lot of vacancies in our organisation and we have a lack of French applicants. If you can find here in France, some people with a good mindset, people who are willing to simplify things, please send them over so we can solve two problems in one strike.

Yes, there is a difference between IFRS and US GAAP. US GAAP is much more detailed and we would like to avoid that because more rules leads to more circumventions of rules, a very good example of that is the repo 205 in the US. I think that generally IFRS held up much better. I do not want to say that IFRS is far superior to US GAAP. They are both high quality standards. But in the financial crises, our financial standards held up better than in the United States. It was much more difficult in Europe to have unconsolidated special purpose vehicles. I just mentioned Repo 205. I think that the principle basis of our rules is good and I think that we have to keep them. Many of the very specific rules in the United States have been created at the request of companies, the same companies that are complaining about complexity.

Robert Glauber

The reason why IFRS behaved better than the US GAAP in the financial crisis is that IFRS are principle-based. The United States is coming to understand this issue of principle-based standards, as part of the adoption process, and I do not think that, when the US is going to adopt IFRS, IFRS will seek to tend to be more rule-based. I think IFRS will and should continue to be principle-based.

Benoît Potier

I would like to make a comment on complexity from companies' point of view.

A company wants to measure over the long term the performance of what it does and to show this performance to the different stakeholders (inside and outside the company). With the old and good profit and loss we had the tool that we needed to measure the performance over the long term. On the other hand if we want to measure the strengths of a company, then we turn to the balance sheet and try to see the balance between the different components, where the money is coming from and where the money is invested in.

But as we go, we are moving away from using standards to measure performance over the long term versus just measuring strengths on an instantaneous basis. The world is becoming more financial. Every thing is done to make sure that the financial aspect of everything is well taken into account and honestly I think we are loosing what was the basis of the standards: measuring performance on one hand, and measuring strengths on the other. We do not need a comprehensive income and many adjustments in the accounts just to be even more precise. What we need is just simple rules to have a fair representation of what we do. There might be some rules that can be adapted to the financial world, but as we have not to deal with the same risks, applying one size fits for all accounting standards is definitively not what we should do.

Hans Hoogervorst

I am very sympathetic to this. In fact, I think we try to do something for this. For example, when a company is hedging its risks by buying a derivative, the derivative has to be measured at fair value. There is simply no other option and there is general agreement on that. That's why we invented hedge accounting, which is the most complicated form of accounting to get rid of the excessive volatility caused by derivatives.
Derivatives are not simple instruments. They are very complicated. They are part of your business model these days. So, reality has become much more complex than it used to be 20 years ago. Just to get rid of this artificial volatility created by financial instruments, we have to do extremely complicated things i.e. hedge accounting to make sure that you can show the performance that you really have. So I am

very sympathetic to that and I do not think that there should be an artificial influence from the balance sheet to your performance.

The financial industry is something different. Financial companies have huge balance sheets. Both insurance companies and banks and they are very much dependent on the value of their financial instruments. If a bank or an insurance company are active on the stock markets, I would be very worried if they would not follow the daily courses of their stocks every day and if they would not take into account that these financial instruments are extraordinary volatile. So they should have adequate equity to deal with this volatility. I am sure that a lot of volatility would disappear in the market if more financial companies were better capitalised, because investors would not be so extremely worried that banks could disappear overnight. This is something that accounting cannot solve.

If there is true volatility in the market we have no choice but to show it. I do not remember who said today ie that prudential norms and accounting norms should get closer together. I could not agree more. What went wrong in the last two decades is that banks were able to say to the outside world "we have fantastic capital ratio: 11% or 12% or 13%". If you had looked at the actual facts and at the normal accounts, you could have seen that most of the banks in the European Union and the United States had 0% to 1% capital. That's why this is very good that the Basel Committee is adapting a leverage ratio, which is nothing else than normal accountancy number showing truly what the capital is. I think it will open the eyes of investors and make a much more stable world.