

THE FINANCIAL REPORTING COUNCIL IN CONJUNCTION WITH
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PRESENTS

THE KEN SPENCER MEMORIAL LECTURE

HELD AT
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Lecturer: Mr Kevin Stevenson

Master of Ceremonies: Mr Stephen Harrison

Mr Ken Spencer

Mr Ken Spencer played a significant role in the development of international accounting standards. Mr Spencer's career covered numerous roles, including as a former Trustee of the International Accounting Standards Committee, Managing Partner of KPMG's Melbourne office as well as a range of company directorships. He was the Chairman of the Australian Accounting Standards Board when it began the process of harmonising Australian standards with international pronouncements in the mid-1990s.

A copy of Mr Kevin Stephenson's lecture, "Global Accounting Standards: Has the Game Really Begun", follows.

(Please note that the views expressed in this paper are not necessarily those of the FRC or any other party.)

Ken Spencer Memorial Lecture

April 2006

“Global Accounting Standards: Has the Game Really Begun?”

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PricewaterhouseCoopers, Melbourne

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“Global Accounting Standards: Has the Game Really Begun?”

INTRODUCTION

There are few challenges more daunting than being asked to present a paper when it is the intention of the organisers and all present to fondly remember Ken Spencer. It would be totally immodest to think that any paper could honour Ken – as his honour comes from the life he led and the impact he had on every one of us. The best I can hope to do is to stimulate your thinking about the direction of financial reporting; hence the title “Global Accounting Standards: Has the Game Really Begun?”¹

I take some solace from this broad subject in that I would have expected Ken to have had a good deal of enthusiasm for attempts to develop perspectives about where we are and where we are heading; hallmarks of both his approach to the development of financial reporting and to the profession for which he worked so hard over such a long time.

The first of April 2006 was the fifth anniversary of the formation of the International Accounting Standards Board (IASB). But 2006 is closer to 40 years than 5 years from the beginning of efforts to establish global accounting standards. After some years in gestation – from around 1966 - the IASC was established in 1973. Ken both served as a member of the IASC and as an inaugural Trustee of the IASB. These roles were in addition to his valuable work in domestic accounting standards and, for Ken, a natural consequence of that work. In a sense, his perspective about the role of financial reporting in society kept developing through his career – broadening, if that is the right word, from the practical application of auditing to a wider and wider appreciation of how financial reporting should serve users if we truly, as accountants, were to be professional. Though he entered standard-setting because he had concerns about particular aspects of specific proposed standards, Ken came to believe quite strongly in standard-setting and in global accounting standards - and was prepared to argue for global standards well before the IASB was even conceived. Ken’s growing sense of direction took us all along with him.

This paper

What I would like to do in this paper is to look at the following:

- a) where we are today in terms of acceptance of global standards;
- b) whether the preconditions for global standard-setting are all yet in place;
- c) what technical progress has been made so far;
- d) why financial reporting is still very undeveloped as a discipline;
- e) whether IASB original expectations were too high as to what might have been achieved technically in a short period;

¹ This paper is based on a chapter by the author in the forthcoming book: “*Globalisation of Accounting Standards*”; Editors - Professor Jayne Godfrey and Associate Professor Keryn Chalmers, Monash University; Publisher – Edwards Elgar.

- f) the significance of the work now being undertaken on the framework;
- g) the effects on practice of introducing principle based IFRS;
- h) the spread of IFRS geographically;
- i) the position of the US;
- j) the importance of the existing cadres of IASB and FASB members;
- k) the importance of public sector financial reporting; and,
- l) what we might do in Australia to be famous in financial reporting in the future.

I am conscious that this is a real miscellany of topics, but my hope is that by touching on the various topics a discernible mosaic will emerge as to where we are heading with global accounting standards or, more precisely, global accounting standard setting.

For those who do not like suspense, the answer to the question posed in the title of this paper is “barely”.

But where are we now?

Are we close to achieving global accounting standards, now that so many countries require or allow application of international financial reporting standards (IFRS), or have announced their intention to move to IFRS by some date? Virtually all countries have issued a number of international standards and are pursuing some form of harmonisation, catch up or convergence strategy. Just 5 years ago only a few countries adopted IASC standards, as issued, and certainly no leading standard-setting country did. It is now rare for any country to unilaterally issue a newly conceived domestic standard.

This may sound as though the war is over and the mopping up exercises are underway. And in a sense that is what is happening. That sense is confined to the argument about whether global accounting standards are such a good thing that they should be adopted, as a regime, in individual countries.

When I started in Australian standard setting in 1976 there were still lively debates about whether having domestic standards per se was a good idea. Some directors thought their roles were being usurped. A few years later there was the intense debate about whether standards should be required at law. It would not have been sensible to say that we had “achieved” Australian accounting standards at either of those points, or even later, and it is likewise not sensible to claim that we are near to global accounting standards because of the many decisions to adopt International Financial Reporting Standards (IFRS). To do so, in either case, is to confuse published documents with standard-setting in the users’ interests. Standard-setting and financial reporting can and should only be judged by how well they serve the users of financial reporting. And on that basis, as a branch of economics, standard-setting is still in its infancy. I will return later to why I say this.

However, whilst the world had many standard setters, with disparate processes and requirements, we had no hope of serving users well, especially when those users increasingly had cross border needs. Thus it was very necessary for an IASB to be formed, for domestic standard setting to be significantly changed and for decisions to be taken to adopt IFRS. This is despite the fact that it was sometimes painful to do so when IFRS standards were to stand in place of work that resulted from years of

enormous effort and occasionally may have had an edge over individual international standards when judged solely on technical merit.

But had technical merit been all that was involved in moving to global standards, we would simply have adopted US standards years ago - as they were always, taken overall, technically superior to Australian and other domestic standards. However, stylistically, culturally and structurally there was not enough support to start with US GAAP as the base from which to build global standards. It was judged that the world needed a new style of standards, albeit standards developed by a Board with a structure and independence based directly on those of the FASB.

What is most important about the decision taken in Australia, and elsewhere, to move to international standards is the potential to unlock the world's abilities in a concerted fashion and in a way that could be hoped to take hearts and minds with it. In other words, having global accounting standard-setting, serving users needs, as opposed to having a common set of standards that are more convenient for preparers and auditors, is the critical change that is intended to be achieved. If those user needs are well served, so too will be the entities in which they have interests – through lower costs of capital and better resource allocation.

Therein is the reason that entities that operate within the borders of one country are also beneficiaries of global standards. The users of their accounts should ultimately be better served through better information. It does not matter that those entities raise capital only in a domestic market; though one should never presume these days that any market is isolated in terms of information, pricing and resource allocation. Indeed, reducing preferences for home country only investments is one way of diversifying risk and reducing the price of capital.

In this move to global standard-setting, we have clearly reached well beyond the point of no return. The argument for global standards is won. But I think most have not yet glimpsed the power of global standard setting to radically improve financial reporting. Unfortunately, for some, their vision is impaired by the cataracts born of transition. However, the strategy will become more and more evident and appreciated. Ken Spencer understood this many years ago.

Are the preliminaries completely over?

Whilst much has been achieved in setting the scene for global standard-setting per se, it must be said that the endeavours of the IASB, FASB, SEC and the EU to end the reconciliation requirements for the US capital markets are going to take much time yet. The so-called roadmap for removal of those requirements has a target for completion of 2008/9. It involves making progress with a limited number of agreed topics. It does not involve anything approaching complete convergence of IFRS and US GAAP. Nevertheless, this roadmap work is further institutional “sorting out” that must reduce resources that would otherwise be applied to fresh areas of progress.

Also, the adjustment process involved in moving to a principles-based approach is not yet over. I will discuss below how practice has responded, but it must be said that many have yet to grasp the significance of the shift. I note even here in Australia debates continue about the area of interpretation.

So it seems the establishment phase is not yet over. However, it is to be hoped that what remains of this phase will not exhaust all of the oxygen and that increasingly progress can be made with critical areas like insurance and revenue.

But what of technical progress so far?

It is perhaps odd that so many countries are in the travails of changing to IFRS, struggling with the more complex aspects thereof, and yet the IASB itself would probably acknowledge frustration with their own technical progress. Indeed, the IASB has been very concerned with the time spent battling with European vested interests, including the vocal opponents from French banks and insurance companies. And no doubt FASB has seen this as a downside to partnering with the IASB. There is little benefit for FASB in this process.

The protagonists may well say that but for them there would be less opportunities to account sensibly for such matters as portfolio hedges, that the fair value option would have been unconstrained and that the IASB would, but for their pressure, have moved quickly to fair valuing everything. All I can say is that this filibustering is not something of which we, as a profession, should be proud. Opposition to the IASB has not often been professionally or technically motivated. Most times it has been to slow the inevitable – such as having to mark derivatives.

When the IASB was formed there were many issues that Board members wanted to see addressed and they hoped that they could do so relatively free from some of the constraints they had experienced in domestic standard-setting. But in a sense this was the standard-setters themselves drifting into the trap of confusing their physical products with the true essence of standard-setting. The changing of hearts and minds is a complex, time-consuming process and it is not achieved by dictum. And it can only come when the standard-setter has overcome its own limitations – whether they be an initial lack of esprit de corps, unfamiliarity with acting on a world stage or the absence of sufficient technical support – and when the market place can actually handle the change. The IASB had all the former issues to deal with, but it must be said that within 5 years it has made much progress in resolving them and now has a demonstrated capacity to produce.

The market place is another matter. The starting point of the various countries adopting IFRS has been markedly different. In this regard, Australia should be very thankful that Australian standard-setters significantly reduced the task of transition over a number of years.

The revisions of many of the old IASs and the issuance of the first seven IFRS, together with the establishment of the International Financial Reporting Interpretations Committee (IFRIC) and the issuance of its initial interpretations, have in fact been great achievements in less than five years; but still the Board would be unhappy. Why? The answer is that the Board is comprised of people who are not content to recycle or finesse matters that have been addressed over many years and are not the stuff of innovation. And, indeed, their abilities go far beyond that level of challenge.

However, whilst the Board can feel rightly that topics such as business combinations and share-based payments are well on their way to better future standards, they are less than happy about financial instruments. They see the standards as being complex, anti-abuse oriented, and lacking, in some areas, consistency with the conceptual framework. The Board is unhappy with the number of classifications of financial assets and liabilities, the inconsistent measurement bases between such classifications, the lack of logic in hedge accounting, the failure to make progress on de-recognition and the remaining degree of inaccessibility of the two standards (IAS 32 and IAS 39).

In other major projects, insurance, revenue and related liabilities and performance reporting, the Board has laboured long and hard without much reward; hence the frustration that the Board feels about its own performance. Some of that frustration is misplaced and some of it self-induced. The Board, for all its ability, has found it difficult to establish a working pattern that sees it make steady progress in clear directions on difficult conceptual topics. In large part that has been due to the distractions of putting the stable platform to bed, dealing with spirited and politically inspired opposition on financial instruments and insurance, and just trying to do too many things at once – a perennial standards-setting problem. But it has also been due to an inability to maintain focus on conceptual issues before “peeking ahead” to their possible implications for individual standards.

Financial reporting in its infancy?

Though standard-setting dates back to the 1940s, it could hardly be claimed to be a developed discipline. We still find it hard to define the limits of financial reporting and reporting entities; we are not sure who should comply with standards; we sometimes still argue about which users to serve; we do not serve any users very finely in terms of helping them with economic decision making; we often hear the complaints of preparers, regulators and auditors far more easily than we do those of users; we do not really know how and which information affects users; we do not have articulated concepts of capital and income; we use mixed measurement models; we have weaknesses in the definitions of the elements; we cannot seem to get happy with neutral recognition criteria; and we have a ragged disclosure regime. Otherwise things are fine.

I frequently hear those emerging from the throes of changing to IFRS expressing the wishful thought that things may revert to normal soon and life hopefully will be easier. Given how far we have to go to make financial reporting potent, I seriously doubt that these wishes can or should be met. Yes, the rate of change needs to be managed and transition carefully orchestrated, but those observations must be tempered by the fact that considerably more change is needed. Indeed, I think continuous improvement is what we face for the foreseeable future.

My hope is that with the best resources in the world concertedly applied to the seemingly intractable issues, we may see some real and creative progress in financial reporting, whilst dramatically reducing the compromises and inconsistencies in financial reporting that we accountants tolerate and which mystify intelligent observers of what we do.

But of course my hope has the seeds of our dilemma in it – preparers and even auditors seek stability from their viewpoints; the eloquence of users is even less developed than our standards; and we have little connectivity between policy making and solid empirical research.

Par for the course?

The Board’s frustration with its progress in pushing forward the frontiers of financial reporting reflects the personality of the Board and the standards that it sets itself. As indicated above, the achievements of the Board over the first five years, the achieved spread of IFRS and the likely future of IFRS in China, South Korea, Russia and many

other countries all mean that the board has progressed far more than could have been expected in 2001. Indeed, some Board members have recently said they have been quite surprised by what has been achieved in the first 5 year term.

But the frustrations of the Board are important. Their removal is essentially the legitimate target of the Board over its second five year plan – the period in which (a) the completion of the 2008/9 roadmap; and, (b) the degree of progress made with major individual projects, will characterise this Board’s time at the helm. Whilst the individual board members are aware of their mortality as standard-setters, and know that others will need to carry the work forward, there is also a burning desire on their part to finish the things they have started.

Nevertheless, it is necessary for all standard setters to clearly recognise that managing change is their main task, and a complicated one when performed on a world scale. Devising new and insightful solutions is the attraction for those who take on standard setting, but not often the actual opportunity on a day-to-day basis.

The conceptual framework

The “sleeper in the pack” in terms of assessing the work of the IASB is how well it handles the development of a new conceptual framework. Few Boards operate for any length of time without feeling the need to establish or revise the conceptual framework. Both the IASB and FASB have felt this need and are now working to replace their existing frameworks with a single new framework – a framework to be equally recognised within their respective GAAP hierarchies. The outside world, and maybe even the two Boards themselves, may under-estimate the potential of this project.

In terms of stylistic ambition, the conceptual framework is the means by which creativity can be expressed – creativity based on the depth of experience of both the IASB and FASB. That current depth provides, in my view, a “once-in-a-lifetime” opportunity as it will probably be very difficult in the future to assemble so many talented people, with the right experience, at any one time. I say this because the changes that are occurring in domestic standard setting will mean that the avenues that have been used by the current IASB members to reach where they are today will not be available in the same way to future generations. New pathways need to be developed.

The promise lies in the resurgence in practice and industry of recognition for technical excellence. I certainly have witnessed in my working career the birth of a solid financial reporting technical discipline within the profession. When I started full-time in technical work in 1974, I was not aware of anyone else in that capacity in practice or industry. There were part-timers, but no full time people. For much of my career in Australia, I would have known everyone so engaged. Now there are so many in the field that you cannot keep track of them. From their ranks will have to come the people with the professionalism and vision of the future Ken Spencers – the future members of the IASB. But this will take time.

The core legacy that the IASB and FASB could leave the future generations of standard-setters is a new generation conceptual framework. If they do not, then the next generation of standard-setters are likely to need quite a few years before they would be competent to rebuild the Framework themselves. What might be a 3 to 5 year task for the current boards, might be a 5 to 10 year task for their successors.

Being on the other side of the fence

One of the most subtle, but most important, strategies of the IASB has been to accentuate principles and not rules. They have forcibly rejected the role of “street vendor in the market for excuses”, a role inadvertently acquired by domestic standard setters, particularly in the US, over time. It became far too common for the professional accountant to want the standard-setters to solve all the problems that caused them grief with their clients.

The Board has not found it hard to get support for this principles based approach – though many have misunderstood what the Board means by that phrase. Some assume that latitude is being given – a carry over criticism from early IAS days. However, the Board intends that each standard is explicitly connected to the Framework by a clearly stated principle or principles. They see this approach as being a means of achieving coherence, completeness and integrity, without a mountain of guidance. The Board reasons that preparers by and large have the ability to faithfully apply principles; that principles are not as easily engineered out of the way as are rules; and, that numerous rules are in fact counterproductive. A set of standards with explicit principles that articulates well with a Framework would be a very powerful tool.

In the US, the conceptual framework project is to be accompanied by a change in status for the framework. The endeavour is to have it come within the GAAP hierarchy, in the manner already set down in IFRS. The FASB is also committed to a principles based approach, but it is also the keeper of a considerable heritage that is excruciating in its detail in some areas. As the FASB manages the revision of GAAP it will face the possibility of old and new forces pulling against one another. If the Framework becomes authoritative, and the culture has not fully adjusted to a principles based approach, it could be that considerable tension will emerge.

The pressure by the IASB to have the market take charge of its own destiny when interpreting standards seems to have worked far better than anyone has realised or would admit. At the very least, the major firms now have global consulting and quality control mechanisms in place. Also, they do not now turn automatically to formal interpretation as the means to an answer (excuse). They realise that they have to “call” issues based on their reading of the standards and the principles involved.

Furthermore, the intellectual capability now applied to issues is considerably more than was ever applied to domestic GAAP, including US GAAP. Now every part of large firms has to be concerned with how issues are handled. Some in the profession believe that the IASB has let them down by not providing detailed guidance and interpretation. Over time I hope that they will come to understand that their own capacity has been significantly improved and that their standing and value in the community has been lifted. The IASB has effectively leveraged its efforts in a way that even they could not have dreamed to achieve in 5 years.

I can honestly say that I have reached the stage where I cannot tell what type of issue should be submitted to IFRIC or the Board. I say this because the catalogue of issues dealt with within the firm, and no doubt by other firms, is so extensive that it is starting to become unusual to find an issue not previously addressed. Certainly a great many complex issues have been resolved in practice, often more complex than those addressed by IFRIC. Further, as coverage of issues extends, the firms no longer can tolerate inconsistency in their own views. Thus views which may have been “conveniently” handled in the past in a local domain, are now problems that must

resolved across the board in a manner that is consistent with other decisions taken. Transparency is greatly increased, as is general technical competency.

I strongly suspect that this is also having a beneficial effect on the consistency of auditing. No longer is there the cloud of domestic requirements that would induce engagement teams or quality control teams to hesitate in being critical about how any particular issue is handled in domestic GAAP.

And it will become increasingly clear that foreign regulators will be no less reticent in evaluating compliance with IFRS; IFRS as the world sees it – not as any one firm or country sees it.

Fundamentally, there has been a renaissance in the importance of technical knowledge and training within firms and for clients. Now there is the scale and opportunity for consistent training in financial reporting issues. The electronic and other tools available have blossomed because of that scale.

These developments have not been hurt by the backdrop of alarm caused by the great scandals of financial reporting in recent years.

Some seem to fear that the developments in the larger firms are establishing further barriers to entry that favour those firms. The larger firms have the means to come to sophisticated answers on a global basis, but who answers the questions of the smaller firms, or preparers in dispute with their auditor. Some domestic standard setters have suggested that they need to engage in interpretation for this very reason. However, it seems to be doubtful logic that interpretation should be the means for ensuring equality of ability across practising firms. Education may well take up that cause, but it does not seem to be a valid basis for interpretation. Otherwise, the most inept in the market will drive the level of interpretation. The discipline of financial reporting is complicated and if entities are going to hold themselves out as competent they must be able to understand the principles and standards in play and they must establish the means of obtaining assurance about the views they develop. This applies not only to small accounting firms, but “in spades” to preparers. Sarbanes Oxley has brought this message home to some, but too many are yet to hear it.

No doubt at some point there will be failures in entities that reveal liberal interpretations of standards and there will be the inevitable calls for tightening standards. However, it will be interesting to see how the courts use explicitly stated principles to question the actions of preparers and auditors. Hopefully, they will understand too that principles are to be followed and not just the letter of standards.

In this regard, practice is bracing itself for the activities of securities and other regulators. Those regulators will take time to adjust to the subtlety of principles-based standards and may be disconcerted when it becomes evident that there may be more than one acceptable way to meet the requirements of a principle. Some early mistakes by regulators could cause knee-jerk reactions that set back the cause of re-establishing professional judgement.

It is this author’s experience that large firms are devoting enormous reserves to ensure consistent and proper application of accounting principles, and that decision making on complex issues is being upgraded significantly. Now issues are not handled in ad hoc ways – they are checked against world databases, discussed by global subject expert panels and industry panels and resolved much more consistently than in the past when the need for dialogue and consistency just did not exist. Interestingly, this

pressure for consistent answers exists under principles based standards, but did not exist to anywhere the same degree under diverse domestic standards.

As for concerns about the game becoming too complex for smaller firms and preparers, I can only say that we as a profession need to take education much more seriously that we have in the past. Further, when we are making submission on standards seeking exceptions and “less theoretically correct” answers we need to be conscious that we are the very sources of much of the complexity in standards. “Practicality” itself, in the end, must make sense over time and across issues.

New frontiers

It is worth examining how the IASB’s original strategy of working with eight liaison standards setters(8) has evolved. Now five of those countries are either IFRS adopters or are about to be (Australia, New Zealand, France, Germany and the UK), one has signalled its intention to withdraw from establishing domestic standards in favour of moving to converged US and IFRS standards (Canada) and the US is working solidly with the IASB in the major convergence programme. Japan has been the reluctant member of the group, but has recently agreed to move to stage 2 of its convergence programme with the IASB. No doubt developments in China and the equivalence programme in the EU have somewhat unnerved Japan and spurred this.

The IASB has therefore widened its communications focus to take in other standard setters, recognising that the task has changed from five years ago. The new frontiers are in the subcontinent, Asia, South America, Africa and in Russia. China is proving to be a conscientious improver of its standards and intends, through the 38 accounting and 48 auditing standards it released in February 2006, to ensure heightened consistency with IFRS in 2007. Korea is hoping to change in 2008. Now we hear India is exploring the idea of adopting IFRS rather than pursuing a harmonisation route. Indeed, it seems that few Asian countries of any size will not be on IFRS by 2008 to 2010. Russia is also on the move and South America has shown signs of changing (eg Brazil will require its banks and other financial institutions to apply IFRS in 2010). Some African countries have been long standing supporters of international standards and others have plans for change.

Indeed, by the end of the second five year term of the IASB, it is now a reasonable hope that IFRS will have been adopted on a fairly universal basis in those countries that do not remain on US GAAP. Either IFRS will apply or US GAAP will apply and if the latter applies preparers will be very conscious that it is increasingly related to IFRS. That situation seemed most unlikely just five years ago.

But what of the US?

If we suppose that nearly all major countries will have adopted IFRS by 2010, will that include the US? It certainly seems reasonable to expect that in five years time there should be an established track record of the IASB and FASB handling major projects together. Hopefully, they will have issued significant parts of a new single Framework, issued several common standards or proposed standards on major projects (including business combinations (mark II), leases, pensions, revenue, performance reporting, aspects of financial instruments and insurance) and have a more clearly integrated approach between the their approaches to interpretation.

But would US GAAP be formally replaced by IFRS in the US, albeit with the FASB remaining as the local face of international standard setting?

My personal view is that five years is too short a time frame for this to happen. Indeed, if the list of projects above is finished, the boards will have been both extremely productive and very persuasive on the world stage. The latter may be the greater accomplishment as those projects will involve much more technical development of financial reporting than has been achieved in IFRS to date.

As the IASB, FASB and SEC embark on their roadmap towards removal of the need for foreign registrants to reconcile to US GAAP, there will be diversion from the major projects. As indicated, the roadmap represents another catch up or improvements period, similar to the last five years.

It is not clear to the author that the removal of the reconciliation requirement is as important as seems to be generally accepted by most. It would be a boon for preparers and auditors in terms of convenience, but would it remove a spur for developing financial reporting? Once the prize was achieved, would there be extreme reluctance to further develop financial reporting via IFRS? Also, is there as much to be gained by the FASB in the removal of the requirement? Or will they see it as a diversion from users' needs for the sake of foreign registrants' convenience? So far the FASB has been remarkably understanding on this score.

There are no easy answers to these questions, but it is to be hoped that in five years the successful completion of the projects mentioned will make the reconciliation less relevant anyway. I would hope that by then the culture of continuous improvement in financial reporting and the focus on users' needs will exist much more evidently. This is the protection to be sought against any reactionary forces seeking maintenance of the status quo post removal of the reconciliation requirements.

Nevertheless, there remains the need for the US to significantly overhaul the baggage it carries in the form of old GAAP - GAAP written in different eras and in different styles. The FASB is aiming to recodify GAAP, but my sense is that there is a long way to go and probably a need for a major project to be established that gives recognition to the size of the task.

In practice, we do see some evidence that detailed US GAAP is accepted as IFRS, by default, when IFRS does not explicitly cover some issue. This is sometimes highly dangerous as in some instances non-US preparers are not fully appreciating the context of the US GAAP. Over time this could mean that a hybrid form of informal GAAP is created in a manner that inhibits reform by giving too much recognition to the literal reading of standards and not enough to the application of principles. Cultural reform is delicate and subtle and can be subverted.

The public sector

One significant blind spot for the IASB and the Trustees has been the public sector. The response to those who have pressed the IASB to look into this area of financial reporting has either been that other priorities take precedence or that the Board is unsure of its capacity to deal with the issues. Neither of these responses is valid.

I remain firmly of the view that the moves by Australia and New Zealand to establish sector neutral standards have been both farsighted and beneficial to both the users of financial reporting and the discipline itself. The IPSASB is now starting to get traction in the public sector and I would like to think that by the end of the second five year

term of the IASB that a far greater acceptance exists of the need for the Board to address financial reporting by reporting entities – and not just financial reporting by business entities. I would not like to see competing models emerge – which could happen with the current arrangements. I note that the IPSASB’s future seems brighter due to Canadian support. It would be a great pity if Australasia is not so influential in the future – as we know where the road leads and have much to offer.

The revision of the conceptual framework does offer promise. The US framework applies to not-for-profit entities and so the IASB is likely to be drawn into scope expansion for its standards. Public sector and not-for-profit reporting are not so far apart, and neither differs much from business entity reporting. Hopefully, this will become evident to the IASB and FASB.

The importance of the cadre

Comments were made above about the opportunity that exists today to use the impressive talent of the IASB. It was also indicated that the Board took time to come together and to develop a working approach. To this point, only two members of the IASB have left the Board (Bob Herz, to chair the FASB, and Harry Schmidt, who retired after many years of service to the IASC and IASB). Another, Geoff Whittington, will retire soon. But others have limited terms to run and the next five years will potentially end with quite a different population on the Board. This will also be true for the FASB.

It is to be hoped that the efficiency of the Board is at its peak over these next five years so that its inherent abilities and its communal knowledge are fully utilised.

It is also to be hoped that the Trustees continue to be alert to the qualities needed of future board members and that they are not the victims of concerted efforts to have representatives of vested interests appointed to the board. I was surprised in my time with the Board at the ambition of some groups and individuals in this regard.

I would also not underestimate the importance of the sentiments of the current FASB members. They support and believe in global standards. Hopefully future FASB members will feel the same way. The US is much more experienced with the implications of changing board membership than the world can have been with IASB membership. History shows that such changes have been critical at times, often causing either acceleration or deceleration of projects. We will learn about this in coming years.

Where to Australia?

I do not intend to traverse the role of domestic standard-setters; that has already been the subject of considerable recent work by the IASB and the liaison standard-setters. Suffice to say that domestic standard-setters have a vital and ongoing role; but a role much changed from when they wrote free-standing GAAP and interpretations. Now they are part of a global system and need to operate that way.

But having said that what could Australia be famous for in financial reporting? Conversely, does it matter if we are insignificant?

We were famous for our innovation, our developed standard setting and our contribution from the earliest days to the establishment of global standard-setting. Australian reporting practices were generally respected, though we have blotted our escutcheon from time to time.

In a purely commercial sense, Australia is well placed to receive a dividend from global standards by being an excellent applier of those standards. We have a comparative advantage in that our financial reporting education, knowledge and experience exceed those of recent adopters of IFRS. If we are exemplary in our application, we should reap a reward in the form of lower costs of capital and a better allocation of resources. If we are not, we will have lowered the costs of our competitors at our own expense. We will also find that we have invoked a much more intrusive regulatory regime.

In a professional sense, we should be very well placed to contribute to future directions through our intellectual property. In a way, Australia can be the academic of global financial reporting standards. We can explore and develop thought, relatively free from the pressures of primary day-to-day standard setting. This is partly recognised already through Australia's role in certain IASB research projects. But my point is broader than that. I believe we need a capacity, and probably the right institutional arrangements, to engender energetic debate and research about the full range of topics that affect or will affect us. We could become the centre of excellence in matters such as post implementation research for new or existing accounting standards. To facilitate this, I think it is time for the Australian Accounting Research Foundation to be relaunched in a mode consistent with its title. The accounting bodies could achieve this, as they did in 1966. An arrangement with the accounting firms and major preparers may be a way to encourage a sharing of their experiences with the wider community and of restoring some feeling of collegiality between members of the profession.

Interestingly, the key objects of the Accountancy Research Foundation (the original name for AARF) included to:

- a) organise carry on, develop and assist research...techniques and applications of accounting....and the extension of knowledge in relation thereto:
- b) ...to conduct research into international methods and standards of accounting (and) to study developments in accounting both in Australia and overseas...

These words are not so far from our current needs and interestingly were not predicated upon AARF being a standard-setter.

You may think that this is a role that the academe itself should pursue. I would like to agree but am realistic enough to know that the academe will be drawn into its own paradigms of research in a manner that will not influence global accounting standards in any tangible way for the foreseeable future. What we need is the development of a priori research on recognisable topics of relevance to standard-setting and global standards. By all means let the academe vet that research and add substance to it. But we need more immediate and less tangential answers than the academe can deliver at present. If the reformation of AARF provides a spur to the academe, that in itself will be a worthwhile outcome. I do not want to digress, but it continues to concern me that

Australian accounting academics are far less involved in financial reporting than was traditional in Australia and far less than occurs to this day in the US.

And apart from any such institutional initiative, we, as individuals, need to rejuvenate our commitment to our profession and to express our thoughts more robustly. As our organisations have grown more sophisticated, and our lives more complex, we have probably surrendered a good deal of our professional personalities and presence. In 1986, a light hearted session at the AAA conference in New York mused on “where have all the statesman gone?”. They pointed to the leading practitioners of the past who were also famous in the literature. Twenty years later I am less light hearted about that question. With due respect to my managing partner, and those of the other firms, I doubt that I will ever see them writing articles on financial reporting that are technically challenging. But worse than that, we no longer see any of the professions senior practitioners writing considered pieces and it is happening every day that major debates within the profession go unreported in our journals or elsewhere. The practitioners are busy, but they are also inhibited by the formalisation of marketing strategies, risk aversion and a lack of conviction that they can make a difference.

The most important point which I would like to make is that I believe there needs to a quantum leap in post qualification education of accountants in this country. In China, the three National Institutes of Accountants are large, modern university-styled campuses, with their own faculties and live-in, state-of-the-art facilities, devoted to the continuing education of qualified accountants. In Australia, the large firms have reformed their approaches to training staff in financial reporting. But what else has happened? I do not think that the provision of transitional IFRS courses is the answer to my question, nor is the laudable accent of the accounting bodies on whole-of-life education. We need serious professional training in financial reporting, at a post graduate level, in which we are all involved.

I do think that it would be a great pity to answer my original question by saying that it is not necessary for Australia to be significant in global developments in financial reporting. To be a receiver of intellectual property is to lose ability and to diminish our roles as members of the profession to which we owe so much.

Concluding comments

The IASB should be delighted with its first five years of operations. They have provided a platform from which further high quality global standards can be expected to be developed over the next five years.

The first five years saw considerable political pressures come to bear. The ways in which they were handled were not always optimal, but no lasting damage seems to have resulted.

However, the next five years will require the Board to achieve outcomes that will be judged on more technical grounds – grounds based in user needs. In the author’s view too much preoccupation with removal of reconciliation requirements for foreign registrants in the US would be unfortunate. A balance is needed. If it is achieved by serving users’ needs through completion of major projects, the IASB and FASB will have been very successful. The Board must not become embroiled with regulators in

that exercise in any way that looks like the experiences with Europe and it must continue to ensure that its relationships around the world are balanced and informed. Neither the US nor Europe is the proxy for the world and the European Commission is not, no matter how much it protests, a “customer” of the Board that deserves preferential treatment.

Above all the main achievement that the IASB and FASB need to claim at the end of the next five years is that financial reporting is being improved and not just unified. That improvement will need to be in terms of meeting the needs of users – not in terms of making life easier for preparers and auditors.

As a profession we have a very powerful tool, in the form of standard-setting, for us to better serve the public interest. We are privileged that it has been developed in the way that it has and lucky that we have had people like Ken Spencer to set the direction for us.

Has the game really begun? I would say the grandstands have been largely built, the oval has been marked out and the tickets have gone on sale. And we have just witnessed a remarkable pre-season competition that has provided a glimpse of the future. On what we know today, I can see 10 to 15 years of work at least to address issues known today. Alongside that work we need to become much more knowledgeable, in a technical sense, about the market for information.

In Australia, I would like to see us become famous for the post qualification education of our accountants in financial reporting, the quality of our application of accounting standards and for a distinctive renaissance in our interest in developing financial reporting thought – as would be evidenced by a reformation of the Australian Accounting Research Foundation. Flowing from the recent work of the domestic standard-setters and the IASB, as to the role of domestic standard-setters, I would also like to see the AASB regain and sustain its prominence in the development of global standards. Clearly all these things are interrelated.

It may be that we can never say that each of these attributes is fully achieved, but agreeing to strive for them, as our key objectives, and being serious in our endeavours, would stand us in good stead. We would be acting in the public interest and serving the profession that Ken Spencer so ably served, hopefully in a manner of which Ken would have approved.

K. M. Stevenson

Ken Spencer Memorial Lecture

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