



Playing the long game: *what's next for the IASB*

As *Sue Lloyd* embarks on a new five-year stint as Vice Chair at the International Accounting Standards Board (IASB), she looks back at some of its recent successes and outlines where its future challenges lie.

As the standard setter for accounting and corporate reporting across the world, the IASB has the task of defining how companies account for and report their activities. It currently has much to celebrate, with four significant standards having been finalized after years of work.

As one of the IASB's senior team, Vice Chair Sue Lloyd is now tackling the next phase of activity. A native of New Zealand, her career has taken her from investment banking to the highest levels of international regulation. In her two spells at the IASB, Lloyd has been instrumental in developing a range of technical standards. Now, having served as a board member for four years, and as Vice Chair for two, she is embarking on a new five-year term, with a focus on working with companies to apply the new standards.

She is unashamedly technical. "I really love the part of my job where I get the opportunity to try and distil information from a long accounting book

to a couple of paragraphs that anybody could understand," she says. Indeed, IFRS is now leaner and more user-friendly than before, in part reflecting Lloyd's determination to position the IASB as a partner to business, not simply a rules-setter.

Q: YOU'VE BEEN AT THE IASB FOR NEARLY FIVE YEARS NOW. WHAT ARE ITS MOST SIGNIFICANT ACHIEVEMENTS IN THAT PERIOD, IN YOUR VIEW?

A: The highlight has to be the fact that we finished the "big four" new standards: the new revenue standard, the financial instruments standard, the new leases standard and, most recently, the insurance contracts standard. They are significant for me because, firstly, they were big projects that the IASB had been working on for a long period of time, but also because, collectively, they should improve the quality of financial reporting.

Having revenue as a truly converged number globally is huge. Then, getting the banks onto a more forward-looking expected credit loss model, post the financial crisis, was equally important. Bringing leases onto the balance sheet bridges a massive gap in financial reporting and addresses something that analysts were always trying to get a grip on. So it's great to get that measured in a consistent way. And of course the insurance contracts standard, IFRS 17, is the first truly global standard on insurance. For the first time, we will get consistent recognition measurement for insurance liabilities.

So those were significant projects because they really move financial reporting forward.

Q: INVESTORS TEND TO WANT MORE INFORMATION, WHILE PREPARERS FEAR INFORMATION OVERLOAD AND ADDITIONAL COSTS. HOW DOES THE IASB BALANCE THIS?

A: It comes down to understanding the different perspectives and trying to find a balance between them. Unsurprisingly, if you talk to preparers, they'll tell you, with only a slight exaggeration, "The information is commercially sensitive, people aren't going to use it and it's very costly to produce." And if you talk to investors, they'll say, "We need more information, don't worry about overloading us, we can cope – the amount we've got now is not sufficient."

They can seem diametrically opposed.



So, first of all, we need to get access to investors and get them engaged in the processes, which we try to do all the time. That can be very difficult. It's not their day job; they're not paid to talk to us. But we need to make sure that we don't just take requests for information at face value.

We need to understand what information they need, why they need it and how they're going to use it. And that may not be everything they ask for. Because if you talk to investors, they don't just want more; they want particular types of information.

Then, when we talk to preparers, if we can at least explain to them why the investors need the information and what they want, that helps our conversation with them. Otherwise, it would be easy – and perhaps fair – for them to complain about the demands for information.

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If we can do a better job of convincing preparers why the information is needed, then we hope we can find some common ground. For both sides, it's important to say that, ultimately, we're trying to increase the amount of relevant information.

Two of the advisory groups that we work with – the Capital Markets Advisory Committee, which represents investors, and the Global Preparers Forum, from the preparer community – now attend some meetings jointly. By doing that, they can have a direct conversation about why investors need the information and why it might be costly to produce or too sensitive. We encourage them to help us find the middle ground. They find that interesting and we've found it useful.

Q: WHAT ABOUT THE NEXT FIVE YEARS? WHAT DO YOU SEE AS THE BIG CHALLENGES FACING THE IASB?

A: The challenge is going to be how to provide the support and maintenance to help people who apply our standards make sure they're doing it in a way that we can truly say is consistent.

When you've got people coming with their own national accents to the literature, they may not even know they're doing it, but they're reading it through the eyes of different accounting principles.

We want to make people feel that it's good to be part of the IFRS family. We need to be very inclusive; not just say we listen, but show that we do listen,

and be able to make people feel that they really contribute and are part of it. Ultimately, it needs to be a partnership.

Finally, we're trying to improve the way IFRS financial statements are used as a source of communication. We hope that by focusing on this in our next round of standard setting, any changes will be less systems-intensive, with less change for people, and will usher in a less disruptive phase. This will hopefully give us time to bed in the new standards.

Q: THERE HAS BEEN A LOT OF ACTIVITY AROUND INTEGRATED REPORTING AND THE REPORTING OF NONFINANCIAL INFORMATION RECENTLY. HOW DO YOU VIEW THESE INITIATIVES IN RELATION TO THE IASB'S ACTIVITIES?

A: Historically, our position on this part of financial reporting has been that we were an interested, but passive, observer. But in November last year, the board decided that we needed to do more; to have a real seat at the table.

“We need to understand what information investors need, why they need it and how they're going to use it.”

We know that something beyond the formal financial statements as we know them is relevant to help understand and interpret the financial statements, but also to understand the future prospects of companies. To do that, you need more than the traditional financial statement. So we think we have a role to play there.

And the other reason we decided we needed to have a seat at the table was that we were hearing real concerns from some investors that there have been so many different, disparate initiatives that it's become confusing for investors, and potentially misleading, because there's a lot of freedom. Firms can choose the regime that tells their story best.

What we're working on now centers around updating our existing management commentary practice statement. That's a non-mandatory document, but it sets out our principles for the front part of the annual report. We have been looking at initiatives and developments in the wider corporate reporting space since we published that – such as the integrated reporting initiatives and climate change disclosures – to try to decide

what aspects of those new developments we would benefit from reflecting in an updated version of our practice statement.

It would stay non-mandatory – we think that's realistic, given that there are specific government initiatives with mandatory requirements around the world that we don't want to cut across. And, crucially, we want to keep its principles-based approach.

You're not going to see us saying on climate, “You must disclose A, B, C and D.” It's more about emphasizing the importance of entities thinking about matters beyond the traditional financial information that investors need to really understand their performance and what are going to be the long-term drivers of their value.

Q: DIGITALIZATION IS HAVING AN INCREASING IMPACT ON FINANCIAL REPORTING. HOW CAN REGULATION AND STANDARDS KEEP PACE WITH TECHNOLOGICAL CHANGE?

A: We've got a technology initiative in place, which we're still in the early stages of developing, in which we plan to monitor a number of different aspects of technology that we think are relevant. As part of that, there are four main streams of work that we're focusing on.

The first is the direct accounting requirements. For example, do we need to have new guidance that tells people how to deal with cryptocurrencies? An accounting standard because of digital change, if you will.

The second stream centers around the consumption of financial information. Everybody's trying to understand what the consequences are, and it's hard to look into your crystal ball, but our thinking is still that, in a world with a lot of data, it's useful to have a very structured piece of information where you understand exactly what's behind it; it's subject to audit, it's got confirmation value. Because

SUE LLOYD: CV IN BRIEF

- ▶ Graduates with a Masters' in Accounting and Finance from the University of Auckland, New Zealand
- ▶ Managing Director at Goldman Sachs in the UK, 2006-09
- ▶ Senior Technical Director at the IASB, 2009-2014
- ▶ Board Member of the IASB, January 2014-October 2016
- ▶ Becomes Vice Chair of the IASB in October 2016
- ▶ Becomes Chair of the IFRS Interpretations Committee in February 2017

even if you've got all of this data gathered and you are able to process massive amounts of information, it's still really valuable to use the financial statements to confirm whether you are on track with your analysis or not.

The third thing is what effect the digital revolution is actually having on our standard setting. What should we put in our standards? For example, whether a certain piece of information should sit at the front of the financial statements or in the notes perhaps doesn't matter so much if you're consuming things digitally.

“Do we need new guidance that tells people how to deal with **cryptocurrencies?**, An accounting standard because of **digital change.**”

And then the fourth and final strand focuses on the broader effects of technology on our organization and how we work with our stakeholders. Traditionally, when we put out a document for comment, we ask people to send us comment letters. And they still send us letters, but now they do it electronically.

However, is that the best way to gather information from people in a world of Twitter, Facebook and other channels? Of course, we know the constraints of a tweet can't give us the informed arguments we need for standard setting, but are there tools that we can use, like online surveys, that would increase our access to the market and get more people engaged?

Q: IT SEEMS LIKE THE MOMENTUM FOR GLOBALIZATION AND INTERNATIONAL COOPERATION IS WANING. IN FINANCIAL REPORTING WE SEE SIMILAR SIGNS, WITH THE RECENT PROPOSAL BY THE EUROPEAN COMMISSION TO INTRODUCE CARVE-INS ON TOP OF CARVE-OUTS, MAKING IT EASIER FOR THE EU TO BE MORE INDEPENDENT OF THE IASB. WHAT IS YOUR VIEW FROM AN INTERNATIONAL ORGANIZATION'S PERSPECTIVE?

A: Looking back, it seems we had the luxury of working in an environment where it was a good thing, by definition, to work the way we did, toward convergence and cooperation. However, I don't think

we can take that as the given it was before. That's a big change.

So far, we haven't suffered to the same extent the politicians have because there are commercial imperatives surrounding what we do. Consider the companies and countries that choose to use IFRS when they're not required to do so. For that, our perfect controlled experiment is the Japanese market, where multinationals can choose to apply either Japanese standards, US GAAP or IFRS. We have seen a huge move to IFRS.

There's been research done on what it is that's driven companies to make those choices, and a major factor is the belief among companies that investors value the global comparability of IFRS very highly.

The other thing preparers bring up a lot, and which will be key for the continued success of IFRS, is that if you're a company that's operating in multiple jurisdictions, to have the benefit of being able to have the same accounting systems, the same training, the same policies and procedures in different markets, is enormous. It's more cost-effective, it's more efficient and it reduces risks.

Q: YOU CHAIR THE IFRS INTERPRETATIONS COMMITTEE, WHICH HAS TRIED TO BE MORE HELPFUL TO CONSTITUENTS IN ANSWERING QUESTIONS SUBMITTED THROUGH SO-CALLED "AGENDA DECISIONS." THIS CONTRIBUTES TO THE CONSISTENT APPLICATION OF IFRS. WITH SO MANY COUNTRIES NOW USING IFRS, WHAT CHALLENGES DO YOU SEE FOR CONSISTENCY IN ITS GLOBAL APPLICATION?

A: Not only do we have a number of big new standards, but we've also got 144 countries around the world that require the use of those standards. And they are all coming at it with different levels of expertise, national backgrounds, levels of sophistication and experience. We need to work with a whole range of people to help them apply the standards.

As a result, we're trying to provide more support, to be much more accessible and to make sure we actually speak in a language that somebody who doesn't write standards 24/7 can understand. I think it's a much more inclusive and welcoming environment than perhaps it was in the past. ■

Sue Lloyd spoke on some of these topics at the EY Financial Reporting Outlook conference in London on 5 November 2018.

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