



In November 2016, the International Accounting Standards Board published its work plan for the next five years. *Christian Doherty* talks to the board's Chairman, Hans Hoogervorst, to find out how they intend to keep improving the standards.

Last year was a memorable one for International Accounting Standards Board (IASB) Chairman Hans Hoogervorst. As the public face of the accountancy regulatory community, he spends much of his time persuading countries around the world to adopt International Financial Reporting Standards (IFRS). So far, more than 120 countries have done so.

As he looks back on a tumultuous year for the global economy, Hoogervorst says 2016 represents a pivotal moment in the evolution of the IFRS project. "There is generally a feeling among our constituents that we should give them a chance to fully implement the new standards we've created in the last couple of years, and not look at starting on a new set of big changes."

In November, the IASB issued its new five-year plan, setting out its priorities for the period up to 2021. The main takeaway is the announcement of the end of the era of writing major new standards and a new focus on improving existing standards and guidance. In practice, that means completing work on the final remaining standard

on insurance, as well as refining what has already been agreed as part of the decade-long IFRS project. But Hoogervorst insists there is still a lot of work to be done to improve the effectiveness of financial statements, explaining that the next phase of work will fall under a new theme entitled “Better Communication.”

CLARIFYING MATERIALITY

That label covers everything from the format of financial statements to how best to use technology (and what to avoid). Hoogervorst’s view is that, now that the standards are written and agreed, the board must focus on improving how they are understood and applied.

Take materiality, an area where Hoogervorst admits more clarity would be useful. “Materiality is part of the Better Communication program,” he says, “because we believe that a lot of disclosures are being made using checklists that satisfy auditors and regulators, but not necessarily investors or companies themselves.

“So we have set out to clarify the materiality concept and how to use it. By adjusting IAS 1 (the standard that sets out the guidelines for presenting financial statements), we have made it much clearer that if something is not material, not only do you not need to include it in the financial statement – it is actually better not to do so.”

The IASB is also working on a materiality “practice statement” to make it easier for preparers to avoid clutter, streamline their financial statements and enhance the effectiveness of their disclosures. “That’s beneficial both for preparers and for investors,” Hoogervorst notes, adding that work to simplify and streamline financial statements will continue as part of Better Communication.

THE TECHNICAL CHALLENGE

The next few years will see the IASB focus on achieving a clearer format for income statements, something that will inevitably involve a more proactive approach to technology. Hoogervorst acknowledges that this may be overdue.

“We do recognize that, given the changing nature of the consumption and dispersion of financial information, we have to adjust as well,” he says, pointing out that developments in technology – not only data mining and analytics, but also the coming wave of cognitive computing and artificial intelligence – make accounting standards even more critical.

“I am not worried about the relevance of the IFRS statements; they continue to be the anchor for most investors,” he says. “But you do see concern about disclosure overload and the voluminous nature of financial statements. You also see concern about the proliferation of non-GAAP measures, and you see that a lot of investors think the financial statements do not depict the financial performance of a company sufficiently clearly.”

To illustrate that concern, Hoogervorst recalls a recent speech he delivered in Washington, DC, on the impact of the new insurance standard, which has given rise to the situation where the same company can give wildly differing financial statements depending on which GAAP it uses. “I said that technology is great, but all the artificial intelligence in the world could not figure that out. So the need for solid accounting standards remains essential.”

THE INSURANCE STANDARD

Hoogervorst identifies completing work on the insurance standard as the IASB’s most important task in the short term: an effort that (speaking in December) he expected to intensify in the early months of 2017.

“We are close to the finish line,” he says. “Our staff have already written a draft and refined that further. We made some more last-minute refinements in November, but we are ready to finish and publish the standard in the next few months.”

However, Hoogervorst doesn’t expect the hard work to end there. “I’m not sure if the endorsement of the new standard will happen within a year, and I know that it’s going to be a rough ride, because all insurance companies will have to change their accounting; that often means that you also have to adapt your business model a little bit, so there could be last-minute hiccups. But I am optimistic, because the necessity is so obvious that I cannot imagine that, for example, Europe will say: ‘This is too big a change. Let’s leave it as it is.’”

A similar determination has driven the work behind IFRS 16, the leases standard. While many feel the reforms are overdue, it is a project that has caused consternation in certain quarters, with some observers fearing a raft of unintended consequences. Earlier in 2016, reports suggested the new standard would bring US\$2.8t back onto corporate balance sheets.

The accounting advantage of leases will disappear (at least in the sense that companies will no longer be allowed to keep leases off the balance sheet), as will the difference between operating leases and finance leases. However, Hoogervorst insists that the intention of the standard is not to dissuade companies from considering leases as a financing option – far from it.

“I think it will lead companies to make better decisions,” he explains. “I don’t think leasing is going to disappear at all, because leases have the huge advantage of removing the risk of ultimate ownership. And you have a lot more flexibility, although it is usually more expensive than simply buying and financing.

“Whereas in the past, people would perhaps go for the more expensive solution simply because the balance sheets would look a little bit better, that advantage will disappear and they will make better economic decisions,” he continues. “It will not mean a huge shift from leases to buying, but there will definitely be some shift.”

BEYOND THE NUMBERS

Of course, long-term value creation is not entirely confined to financial growth. Nonfinancial measures have gained currency in the past decade as sustainability concerns, risk reporting and scrutiny of corporate governance have risen up the agenda. While some market observers (and preparers) have chosen to cast the issue as an either-or question, Hoogervorst views the integration of nonfinancial measures as a vital part of the bigger picture.

"Nonfinancial information has always been important, and is gaining in importance at the moment, so we do not see that as a problem or as competition," he says. "In fact, we see that as complementary to the statements and we take a constructive approach."

However, he does see some challenges ahead for the integrated reporting movement. "At the moment, there is too little streamlining of activity," he argues. "There is progress, for sure, but there is not the beginning of a single set of global standards and I think it is very hard for preparers to figure out exactly what they need to do."

Hoogervorst points out that the IASB is a member of the International Integrated Reporting Council (IIRC) and is debating whether it should take a more proactive approach to engaging with it in the future. Its work with the IIRC mirrors other ongoing partnerships and fits squarely with the board's determination to spread the IFRS message beyond its current constituency.

GLOBAL, NOT LOCAL

However, that expansion into new territories will not involve the development of locally accented standards adapted for individual territories. "We are not supportive of 'local dialects,' because they tend to evolve into local languages if you're not careful," says Hoogervorst. "It's not something

we would encourage or would turn a blind eye to. For the ideal of a single set of global standards to materialize, everybody has to have some self-discipline and avoid the temptation to make local deviations and adaptations."

It's a firm line that belies Hoogervorst's instincts as a natural conciliator. That collaborative approach, he believes, has informed the IASB's attitude to the world in which it operates. And despite a year when global institutions and the notion of international cooperation have come under intense pressure, Hoogervorst retains his faith in the value of collaboration, compromise and progress.

"In spite of all the political upheaval, the adoption of IFRS in the rest of the world has continued to grow," he insists, giving the example of Saudi Arabia, where all listed companies will have to use IFRS for financial periods beginning on or after 1 January 2017. "So it's still on the increase, despite all the tension in the world and the economic problems.

"I still believe that our product basically sells itself, and most countries see the benefits. By the way," he adds, "if you adopt IFRS, it's a voluntary position. You can always pull back if you want; there is absolutely no loss of sovereignty, and that's why most countries feel very comfortable adopting it."

Ensuring the smooth progress of the IFRS project is a difficult task; Hoogervorst acknowledges that further challenges await and sees each incremental step as a cause for celebration. "It's not that easy, but generally the mood in the world is still very receptive," he reflects. "I hope that our accounting constituents don't get infected by all the tension in the world and the retreat from globalization, and that we can continue with our good work." ■

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PROFILE

Hans Hoogervorst has been Chairman of the IASB since 2011 and says he intends to fulfill his second five-year term, which ends in 2021. Before joining the IASB, he held a series of senior positions in the Government of the Netherlands, including that of Minister of Finance. His career as a regulator gathered pace when he took over as Chairman of the executive board of the Netherlands Authority for the Financial Markets (AFM), following a stint as Chairman of the Technical Committee of the International Organization of Securities Commissions. Those roles came about as a result of his success as Co-Chair of the Financial Crisis Advisory Group, a high-level group of business leaders with experience of international markets, set up to advise the IASB and the FASB on their joint response to the financial crisis.

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