

IASB chairman



**Hong Kong Institute of
Certified Public Accountants**
香港會計師公會



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STEADY HANS

Hans Hoogervorst, the new chairman of the International Accounting Standards Board, will soon face a big test on whether International Financial Reporting Standards will become the global financial reporting language. He tells [Heda Bayron](#) about the implications of the United States' impending decision on adopting IFRS – and China's role in advancing the standards

Photography by Bob Davis

Over coffee on a rainy morning in Hong Kong, Hans Hoogervorst finds himself caught up in a discussion on whether “other comprehensive income” can be renamed to better reflect the items classified under that heading. It isn’t his typical breakfast fare but, since taking over from Sir David Tweedie as chairman of the International Accounting Standards Board on 1 July, Hoogervorst has adapted to such talk. “I didn’t realize that people could get so emotionally attached to accounting,” he admits.

Hoogervorst is on his first trip to Asia in his new role, consulting accounting bodies, government officials and other interested parties in Hong Kong, China and South Korea. He leads the board as a major milestone looms for global accounting: the Securities and Exchange Commission’s decision this year on whether to allow companies based in the United States to use IFRS.

The accounting world can, on Hoogervorst’s watch, attain its Holy Grail – a single set of global accounting standards – or lose it. Many see the SEC’s decision as crucial. More than 100 nations are already using IFRS but the fear is that if the world’s largest economy doesn’t adopt IFRS, many other countries will turn their backs on the standards.

The issue worried Hoogervorst even before he took over at the IASB. Now it’s his top priority. “I admit it’s a difficult decision for the Americans. If you’ve always been the accounting leader of the world – U.S. GAAP has been considered the global standard for a while – it’s emotionally a much more difficult decision,” he says.

Mary Schapiro, chairman of the SEC, has said that the regulatory body won’t take this decision lightly. Opinion remains divided in the U.S. Some fear that a switch to IFRS will be costly and that the U.S. will lose independence in setting standards. (Only foreign private issuers are presently allowed to make SEC filings using financial statements prepared in accordance with IFRS without reconciliation to U.S. GAAP.) Others favour a middle way known as “condorsement,” a convergence of U.S. GAAP and IFRS, combined with an endorsement of IFRS.

“The choice is clear: The commission must decide to incorporate IFRS for U.S. issuers,” said then SEC commissioner Kathleen Casey in June, before her term in office expired last month. The SEC has five commissioners who serve staggered five-year terms. “While I believe that the United States must provide for reporting under IFRS by U.S. issuers, I believe that we

can and should give some issuers the option to continue reporting under U.S. GAAP,” she added.

The effort by the IASB and the U.S. Financial Accounting Standards Board to converge U.S. GAAP and IFRS has significantly narrowed the differences between the standards in the past two years. For instance, an exposure draft on new lease accounting rules will be published this quarter and will invite comments on the revisions made by the boards since the previous exposure draft in August 2010. The new rules represent a big change in lease accounting and reporting, including the right to put an asset on the balance sheet.

“The distance is biggest in insurance,” Hoogervorst says. “Here I think we are too far apart. I hope that the boards can come together after the summer, but it will be very difficult. Yet differences between U.S. GAAP and IFRS are so small that the final step for the Americans is really not big. Ultimately, it’s a question of political will.”

Hoogervorst knows a thing or two about politics. Before joining the IASB, he headed the Netherlands’ financial regulator and served as the country’s finance and health minister. He is no stranger to the IASB either, previously co-chairing the Financial Crisis Advisory Group, a panel of business leaders advising the IASB and the FASB on their joint response to the financial crisis. He also served as chairman of the IFRS Foundation Monitoring Board, the IASB’s oversight body.

But he does not consider himself a technical accounting expert. “That has drawbacks and advantages,” he says. “The drawbacks are, of course, that I have a lot to learn and I don’t have a full grasp of detail. But this means that you have to look at the bigger picture. Indeed, it means that you can have a fresh view of things, I think that accounting in the end has to be based on common sense.”

China’s small step

While all eyes are on the U.S., Hoogervorst points out that China is also extremely important to IFRS. “China has not taken the final small step [of using the IFRS brand] but there’s no way it’s going the other direction to a complete ‘Chinese GAAP.’ That will not happen and, given the importance of the Chinese economy, this is almost as important as U.S. adoption,” he says.

China started converging its accounting standards with IFRS in 2006. Hoogervorst says that the Chinese converged standards and IFRS differ by no more than 1 percent. Despite this, concerns abound that China’s standards are inferior. As accounting scandals rocked several Chinese companies listed overseas, credit rat-

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Profile

1956

Born Johannes Franciscus Hoogervorst in Haarlem, the Netherlands

1981

Earned a master's degree in modern history from the University of Amsterdam

1983

Completed a master's degree in international relations at Johns Hopkins University. Joined the now-defunct National Bank of Washington as an international banking officer

1986

Joined the Dutch Ministry of Finance as an international monetary affairs policy officer

1988

Appointed a policy assistant on finance to the centre-right People's Party for Freedom and Democracy (VVD)

1994

Elected to Tweede Kamer, the lower house of parliament, for the VVD; Served on the legislature's committees on finance, European affairs, social affairs, health, welfare and sport

1998

Appointed state secretary (deputy minister) for social affairs and employment

2002

Named minister for finance in Jan Peter Balkenende's first coalition cabinet, which collapsed over rows with its partners; Also assumed economic affairs portfolio in Balkenende's second cabinet, which also folded amid inter-party enmity

2003

Appointed minister of health, welfare and sport in the third Balkenende ministry; Introduced a wide-ranging health insurance system

2007

Appointed chairman of the Netherlands Authority for the Financial Markets

2010

Appointed chairman of International Organization of Securities Commissions technical committee

2011

Named chairman of the International Accounting Standards Board

Hoogervorst says that the Chinese converged standards and IFRS differ by no more than 1 percent.

ing agency Fitch claimed in July that Chinese companies using IFRS were less likely than those using Chinese standards to engage in fraud.

Hoogervorst argues that the reputation of China's accounting rules is undeserved. "Outsiders almost see them as an imitation brand. That's the drawback if you don't adopt the franchise name completely. But the difference is almost negligible," he says, adding that his meeting with mainland officials showed him that they are strongly committed to full convergence. He hopes that they will eventually start calling the converged standards IFRS – "a small step for China, but a huge step for the accounting world."

Hoogervorst says other big emerging economies have also been influential in the global adoption of IFRS. Brazil has adopted them in full, while India has converged Indian Accounting Standards to IFRS, albeit with a number of deviations, or "carve-outs." Deloitte warned in February that some of the carve-outs would prevent an entity following Indian standards "from making an explicit and unreserved statement of compliance with IFRS."

Hoogervorst is also concerned. "If you have so many carve-outs, the world does not believe that you have IFRS," he warns. "Countries such as Mexico and Brazil, which have a lot to gain by increasing their credibility, have adopted the standards lock, stock

and barrel. Ultimately a country such as India will come to that decision, too."

The IASB also faces some challenges in developed economies. Shozaburo Jimi, Japan's minister for financial services, said requiring Japanese companies to adopt IFRS by 2015 or 2016 as proposed could be costly and burdensome. Japanese companies are already allowed to use IFRS voluntarily, but the Japan Business Federation has called for a delay in mandatory adoption. "I believe this has to do with the financial crisis and the earthquake," Hoogervorst says. "But I think there's no way back."

The European Commission has delayed the implementation of IFRS 9, which changes the way financial instruments such as sovereign debt are classified and measured, until the IASB finishes the rest of the standard. In August the board proposed an effective date for IFRS 9 of 1 January 2015. Hoogervorst argues that adopting IFRS 9 will ease the burden that financial institutions and companies have been facing as a result of the sovereign debt crisis.

"This would allow the institutions holding that debt to make a reasonable judgment on the expected cash flow from it," he says. "They can calculate the impairment and disregard the liquidity discount in those instruments. While at the current situation, these are held as available for sale. They have to completely discount them at the market value."

Despite the various challenges, Hoogervorst says he is now more confident than he was before he joined the IASB that these will be overcome. "Suppose the Americans take a negative position: This will cause a slowdown of IFRS adoption around the world," he says. "But I think the momentum is already so big that it cannot be stopped." **A**

