The legacy of David Tweedie: the adoption of IFRS in the world

The international accounting standards (International Financial Reporting Standards - IFRS) issued by the International Accounting Standards Board - IASB, are already adopted by more than 120 countries and are being adopted by dozens of others. The remarkable expansion of IFRS standards - a process that is transforming world accounting - was driven in the last ten years, by the persevering leadership of Sir David Tweedie.

On June 30, the Scottish accountant David Tweedie left office of Chairman of lasb after ten years of leading the international accounting standards body, headquartered in London and linked to the IFRS Foundation. The challenge of leading lasb, from July 1, 2011, was transferred to the Dutchman Hans Hoogervorst.

Ahead of the Committee, in the period from 2001 to 2011, Sir David became a world leader in the accounting profession when travelling through the continents defending the increase of transparency and quality of information in financial reporting, through the adoption of IFRS standards, with the purpose of increasing the security of global investments.

Brazil, led by the CFC, partner accounting entities and the Accounting Pronouncements Committee (CPC), is not only adopting IFRS standards but also, as suggested by David Tweedie, worked for the recent establishment of the Latin-American Group of Accounting Standard Setters - Glass. Established on June 28, 2011 and chaired by Juarez Domingues Carneiro, chairman of the CFC, Glass aims to unify and harmonize the demands of the nations of Latin America and the Caribbean and take them to the lasb.

In this edition, in tribute to the work of world dissemination and convergence to global standards of financial reporting, carried out by the lasb in the last ten years, the RBC published the speech by Sir David in his last visit to the Federal Accounting Council as chairman of the lasb. At the time, February 3, 2011, in the auditorium of the CFC, in Brasilia-DF, David Tweedie gave the lecture “Adoption of IFRS in the world: 10 years in perspective,” during the opening of the Latin American Seminar on Adoption of IFRS: Advances and Challenge.

Moreover, the relevance of the work of Sir Tweedie chairing lasb is also witnessed by some prominent Brazilian professionals, who are among the main responsible professionals for the convergence of Brazilian accounting standards to IFRS standards.
IFRS Adoption in the world: 10 years in perspective

By David Tweedie, chairman of the International Accounting Standards Board (iasb)

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Ladies and gentlemen. We have a very simple objective, which is to develop a set of high quality accounting standards for worldwide use. It does not matter if a transaction is made in Sao Paulo, Sidney, Seattle, Stuttgart, or in Singapore, we should have this accounting done in the same way. This is the goal.

(Sir David told a story) A young American was in a Mexican fishing village. He was sitting, looking around, when he saw a fisherman returning from fishing at lunch time. He asked when he would go out again; the fisherman replied: ‘No, I am not going out again. I like to sleep until later, fish a bit, play with my children, afterwards go for a beer, and play guitar with my friends’. The American said: ‘I have a MBA from Harvard and I tell you if you go out to fish in the afternoon, with the additional fish that you catch, you will be able to buy another boat and, with the profits from it, you buy another. Later, you will have a fleet. In short time, you will buy a processing center and within a few years, you will be responsible a distribution chain in Los Angeles, and in another few years, you may have an IPO and stocks in the NY Stock Exchange. You would become a millionaire. The fisherman asks: ‘And what would a say to these millionaires?’. The American said: ‘Well, you can buy a place in a Mexican village and, then, wake up late, fish a little bit, and play with the children’.

No, it is not something that simple. This is, really, important. Why is this necessary? When the accounting standards arrived in Brazil for the first time in Brazil, Mexico, and other countries, there was a specific reason for it, because it was where financing was. And those offering and supplying those financing wanted to know what was happening with those financing.

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The majority of countries had standards, their national standards. However, globalization begun from 1975 and corporations began to seek in the other side of the border to get financing. And, of course, people wanted to know what was been done with this funds. In New York, for instance, corporations from 45 different countries are registered. In London, they are over 67 countries.

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People are seeking financing in any part of the world, but not any country has the best standards monopoly. Some are good, others not so good as the first. Then, the idea started to grow on having a single set of accounting statements that would really assist us. Which ones are benefits? Well, the benefits are for the local capital market; a foreign investor gets to understand this market.

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Do you understand Korean, Indian, or Latvian accounting, for example? Soon you will understand, because they will do the same as you. Nevertheless, if you did not do this, you would need to do in due diligence. Do you have all the answers? Perhaps, you may not! Perhaps, it is something that you had not realized, thus capital cost will increase in order to compensate the risk.

Adopting a single set of accounting statements, comparability among countries increases and risk decreases. We have, now, a chance to get this risk out of accounting.

You have a better possibility to make a comparison among corporation. For example, within a same sector, in different countries, corporations can be compared. Who gets the benefit for a better resources allocation? And, at what cost?
Comparability between political borders: The European Union, for example, adopted these standards because it did not have any option. You may not have a single economic market with 25 different ways of accounting. This was what we had until 2005.

It helps in training, in education... An IFRS accredited accountant may be contracted anywhere in the world because he will have the same knowledge. Previously, he had to undergo a recycling; he would have to get training; other countries’ corporations could not hire him. We shall be the first global professionals, and we shall streamline it in the entire world.

For corporations: lower capital cost. Capital cost dropped 47 points in Europe since adoption of IFRS. IT systems may be integrated. It was a pleasure working with him. I do hope that he will somehow keep his involvement with the whole exercise, now that the main objective seems to be within our grasp, even if it takes some more years of additional hard work.

Comparability between political borders: The European Union, for example, adopted these standards because it did not have any option. You may not have a single economic market with 25 different ways of accounting. This was what we had until 2005.
grated easier, and consolidation is simpler. Some multinationals have hundreds of firms spread all over the world; all doing different things and majority of them adopts IFRS now. IFRS help corporation to increase capital abroad and, as well, assisting to understand their suppliers and, even, more importantly, their controlled firms.

Why did this happen? In first place, there were multinationals, they demanded for a single set of accounting statements, in order to reduce costs imposed by adopting different statements.

However, it was the 1997 Asian financial crisis that really boosted all this. What happened, then, is that we saw Asian corporations using local accounting standards. They seemed to us solving, profiting, but, all of sudden, they went bankrupt. And trust went down the drain. Many were short time financing. Interest rates increased, investment halted, growth ended, unemployment increased. These Asian countries knew they had to correct their accounting standards, which could take, I do not know, around six years. Would the world recover after burnt once? They were not reliable anymore. Thus, they sought for standards that they could use, and there were two: standards designed by a precedent international standard agency (the IAS – International Accounting Standards) or the US GAAP (Generally Accepted Accounting Principles). Even Americans stated that the US GAAP should not become a world standard because it was designed for the American domestic market, influenced by the United States Congress, and by the country’s internal opinions. They needed something broader, but done in the manner that the USA did it.

Thus, what are we talking? About the IFRS.

This not a discussion about which is the best accounting method; this is not the reason for IFRS growth. Actually, we are talking about investment, about growth, employment, and macro-economics. This is a microeconomics experiment, which had not occurred previously. And, that is why we are thankful for you accepting these standards and get this experiment done.

We have problems, yes, and we need your help. Our governance is based in the structure of the American standards commission (the FASB – Financial Accounting Standards Board). We have an independent council of professional experts that, now, comprises 15 members; next year, they will be 16.

We come from eleven different countries. One from Brazil – here is Amaro Gomes –; two from United Kingdom, which will be reduced when I step down the Board; there are four from the USA (no other countries has so many member in a Council like that). But, like the Americans, we are nominated also by a group of councilmen, 22 altogether – Pedro Malan represents the Latin American area. They select the Council and assure that we approach in the best possible way setting these standards. They retire and they designate their successors.

In the United States, they do one thing different from us. There, above council members there is Security & Exchange Commission that carries out supervision and enforcement on council members’ correct actions.

There was not an international Security & Exchange Commission, but three years ago, they invent one, which is not ready yet. This monitoring commission nominates council members and these, then, propose names. Composition of this monitoring commission includes Japan (Japan’s SEC), also in the USA (America’s SEC chairperson), from Europe and two other members.
Do you think that this represents the world?

These other two are random. One, for example, is from the International Security & Exchange Commission, and the other from the Emerging Countries Committee, currently in Malaysia’s hands.

You are not involved. Don’t you think that Latin America should participate?

This monitoring council develops a document, which will be disseminated in few months, asking this: ‘What should be our structure, our flowchart?’. This is an area, I believe, you should get involved collectively, stating which should be this composition.

Really, we are a weird organization. We have over 120 countries using our standards, which almost became a law. But we don’t approval in the Parliament nor we have governmental approval. We write the standards; we are 15; and what control is there on us? None. This is a major issue.

When we analyze other international agencies, such as the Basil’s Committee, what happens there? The committee represents their countries and the government tells them what they want to get at the end of every meeting.

The Brazilian government does not get here telling Amaro (Gomes, Brazil’s representative in Iasb Board): ‘Look, I want this and that. Amaro is the one who sees and tries to discover which are its views and if he (Amaro) agrees, then we will put them forward. Generally, it is like that. But we can reject. Inclusively, I have denied specific views in the United Kingdom, which I did not agree. This is not one of those things that Committees, such as Basil’s, do. We, yes, put our view on what we believe that is correct; this not very common internationally. Thus, there is not in there a commitment; sometimes we make mistakes too. And, therefore, I believe that it is so important that we make a partnership with national regulators. Look at this document that will be published in few months. You must read and, please, write, comment, particularly if you are able to have a common view to be well represented.

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We start not as world regulators; we start as an excellence center. We wrote standards and, for example, if Mexico would prefer our accounting statement on a certain issue, then he internalizes our statement in the Mexican standard. This was the original idea; it lasted about three months. Then, from 2005, the European Commission decided that all procured corporation had to use IFRS. A short while afterwards, Australia and New Zealand decided to adopt the standards. There were questions, doubtlessly; there are doubts always. I received several questions already at Sidney airport (Australia) when I went there to talk about this with the Australian government. The Immigration Officer was not so admiring of British nationals and, in the way, he would make pertinent questions, he finally asked if I had criminal background. I replied that I did not know that I needed a criminal background to enter in Australia.

But, this started in Asia, still good standards along with many things we put in there together with the international community. We had problems with Europe, since then. They were the first, and they think that they are half owners, and we go on resisting here and there. There was a tension always, a conflict between Europe and IASB. This is why we have to say that we are not Europe’s exclusive accounting statements issuers. Over 130 countries use our standards already, as one can see in the figure.
Countries in blue are those that effectively adopt them already. Countries in grey are those making convergence, or pursuing adoption. The gap is in Africa. We are asking already Brazilian regulators if they can assist us with Angola and Mozambique, since they do not use IFRS yet; many other English and French speaking countries are not using also. We need help in order to Africa also get on board in this journey since Europeans countries are already in; Australia has been a strong arm and there are other countries, for example, China in 2007.

Israel did not make an “word by word” adoption, but it has adopted already 98% since 2008; Chile in 2009; Brazil in 2010 – now the second wave comes this year, and in the next: Korea, India, Japan, Canada, Argentina, Indonesia, Malaysia, Singapore, Mexico, Nigeria, Taiwan. They are all going toward adoption this year or in the next.

This is why we are trying to have a specific program now, already completed; by mid next year, we will initiate it. Of course, there is one country here and there that is missing: the USA.

I want to show you a few arguments that indicate what is happening:

American corporation with foreign participation in stocks are leaving the country, they are running away. They are foreign corporations, with main offices in the USA. You know that the world’s largest stock exchange in the United States, but perhaps it is not as large as they think it is.

Look at what is happening in past eight years: when we started, the USA had 52 % of the world capitalization, and now they have 31%; growth is taking place here and there in Asia. Europe has been very static. Then, American influence has decreased internationally and it will continue to decrease because this area here is the one that will grow and Asia will grow too. They know it and this is why they are trying to enter in the IFRS.

There are already more countries using IFRS than US GAAP. Basically, right now, 195 countries use IFRS; 155 utilize the US GAAP. However, there is already Japan’s decision to join next year; it will adopt the IFRS. You may see the effect, 300 compared to 140, a huge difference.

We are progressing with the USA. We are attempting now for nine years already to converge the two types of standards. Enron (Corporation) was a shock for the USA. They realized that perhaps their standards would not work all the time. Then, they started to search for international standards to see if actually they could improve.

We made a deal with the USA, in 2002, through which we would have to analyze their standards to find which the differences are. We would not have the same answer always, but the attempt would be this. If our answer were the best one, they would adopt ours. Thus, we began doing it. And the rationale for us to do this is that if we were listed in the USA and did not use the American standard, we would have to reconcile the American standard, and this was somewhat accepted. If there was any change, the later would be aggregated.

The matter is that Americans came to us with a deal, stating, ‘Look, it is the following, if you are able to make this standard her and show that the USGAAP and the IFRS are closer, we will withdraw the reconciliation requirement’. Then, in 2006, we established a program to gather standards in a faster way. Within
The close relationship with David during my tenure as Trustee of the IASC Foundation has always been very pleasant and helpful.

His relationship with the Board of Trustees excels in the objectivity and didacticism. His concern has always been to show us as clearly as possible, what he sought through the standards and procedures that were under discussion or being proposed.

Without giving up the strong defense of his convictions, he showed enormous patience in defending himself against eventual criticism. He was always open to dialogue and insisted that it was not up to IASB to invent the wheel, i.e., to create rules that had not already been tried in other countries. His concern was to find one that would make more sense, and improve it if at all.

With the external world is not always very willing to accept a process of changes eventually with short-term implications for businesses, he showed very firm in defending his point of view, giving up what he could give up in and inflexible in what was fundamental.

I think all of us at the Board of Trustees not only learned a lot from him, but also always it has been recognized that even in difficult times when pressured by various interests, he showed his integrity and determination to face some difficulties.

With regard to Brazil, he has always been very solicitous to be with us (which he did sometimes) to not only help us sell the concept of IFRS internally, but he also made an important contribution to the creation of the CPC, which he has always defended with vigor.

Conceptual Framework Issues

- The objectives of financial reporting
- Qualitative characteristics
- Definitions of assets and liabilities
- Recognition
- Measurement
- Presentation

Roadmap - 2006

1. Short term
   - remove major differences
2. Medium term
   - new joint standards where significant improvement required
Testimony

Amaro Luiz de Oliveira Gomes
IASB Board Member

In any profession, unanimity is rare. However, the commitment and expertise of David Tweedie, coupled with his clear passion for the mission of the International Accounting Standards Board (IASB), among other qualities, made him one of the exceptions to the Accounting profession. Around the world, David is known and admired for his leadership and commitment to accomplish the dream of many: a single set of high quality, globally adopted accounting standards.

It was the best known face and voice of the IASB in the 10 years during which he held the position of chairman, a period ended in June 30, 2011. These were crucial years for the IASB and David led the organization with sensitivity to the challenges presented, the largest being the convergence project with the United States (Memorandum of Understanding with the FASB in 2002).

Even concentrating efforts and resources on the project with FASB, David did not neglect other regions such as Asia and Latin America. In the case of Latin America, he vigorously defended the expansion of the IASB Board, confirmed in January 2009, with the creation of a specific professional position in the region.

In addition, he did everything in his power to make visits to Latin America possible, particularly to Brazil, from where he keeps childhood memories from the interior of Minas Gerais (his father, a mining engineer, worked in Brazil). I have the honor to represent Latin America and had the privilege of working directly with David over the two years I am in the IASB. And I found, besides the characteristics exposed to the world, as mentioned earlier, a sincere friend, worried about other people. David is a rare human being to meet and he will continue leaving his mark as chairman of the Institute of Chartered Accountants of Scotland (the oldest in the world), as a teacher (at the University of Edinburgh and Cambridge) and as chairman of the newly created Leuchie House, the charity dedicated to providing care to people suffering from degenerative diseases such as Parkinson’s, based in North Berwick, a small town in eastern Scotland where he is being living for many years. We will miss him, but we are committed to continuing the cause he embraced and to which he devoted much of his life.

when we initiated the international standards – professor Nelson Carvalho remember this as well – that SEC (Securities & Exchange Commission, the USA CVM) chief-accountant was stunned. He said: ‘Look, the USA has worked over 30 years on how to account goodwill and brands,
and now, 40 years later, they decided to reject everything’. As I told him, in the United Kingdom we have brands, like, for example, the Johnny Walker, that of whisky, and Gordon’s Gin, which are older than the United States itself. In my opinion, they brought more joy to human beings than the USA. I, personally, can do without the USA, but I will not do without the Johnny Walker Black Label.

However, all this took a very long time, then we decided that it would have to be a faster process. Thus, the first thing we did was to say, ‘Let’s join our conceptual structures, the fundaments of accounting’. When I was from KPMG, one of the partners said, ‘Do not set up a conceptual structure if you are not capable to pursue it’.

We have to try doing this in a bit more consistent way. One of the things that we are analyzing is the following: we are seeking the objectives. What do we want to do in terms of financial reports? We had big debates with politicians. In our view, information for investor should get to them; the quality of features as well. Information must be represented well, trustworthy.

What is an asset and a liability? We all know, that is why we do not show all in the balances. An asset is the right to have an economic benefit in the future, and a passive is an obligation from which one cannot escape, which will lead then to resources that will come out of the organization. When do we show assets and liabilities? When can we identify them. How do we measure cost or value? And, how do we present information? We still are working to enhance this: it is a key issue for these standards.

The agreement that we entered with SEC and FASB involves division of work in two sectors. We changed one thing here, another there, to make standards more comparable, for example, in capitalization of interests; the former IAS allowed for their recognition as expenditures or their capitalization. The USA would allow for capitalization only; we agree to this and we change to require capitalization. We did not do it identically, but much alike. The second part of this it is what matters most, because this is the big program in here, where will get standards increasingly closer. We almost finished this.

Thus, where is the USA? In which stand is the USA? The convergence program becomes easier for them to adopt it since standards will be the same in many aspects. However, there is an international concern. We meet with FASB monthly. Amaro (Gomes) and I were yesterday in meeting, by telephone, talking to FASB people in London. But, why just the FASB? This cannot go on for much longer. We have been doing this for nine years already, now it is their turn to open their minds. Many countries will not accept that the USA continued definitively out of the system, but, at the same time, maintain four members in our Council. Therefore, this is an issue for the USA: you are with us, or otherwise, please, leave. I believe that they will participate. I do not have any internal information, but it seems to me that their Council wants to reach a sort of agreement without jeopardizing a large portion of the EUA. They want, this, to identify themselves as part of IASB family. This is what we want. This is what international politician want.

For example, the G20, where Brazil is a great force today. Really,
we want to finish this program by June 2011; we are trying. They want a single set of accounting statements. He is your hour, the United States, as you are the sole major economy that is not here. We had nine issues to finish and, then, we look at the program and we think, ‘How easy it will be, really, to complete it until 2011?’ Out of the nine, two were important, but not critical. How accounting statements should be presented? This project became too complex, nobody really was complaining about the structure of accounting statements prepared in accordance with the IFRS. Then we decide to approve it as it is so important. The second issue: what is, actually, equity and what is liability? We are very happy with the standard, and the USA is migrating toward ours. Then, we thought: ‘Well, let’s leave this IFRS as it is, and let the USA analyze their own standard, which is something, yes, that will take place’.

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In the crisis, one of the major issues was securitization. When do you sell anything really? It seems obvious, but it is not. Let’s use again the whisky example. I hope you like whisky. But one that we remember is that you do not drink one year old whisky, because if you do, you lose the taste, the flavor and, worst still, you lose your ability to speak. Distilleries, when they make this produce, they need to keep the product for at least five years. We found distilleries in Scotland that were selling whisky for the bank. The bank had one option: they could send the whisky back to the distillery at the same price that bank had paid, plus interests, for example, at normal loan rates, at least at the time of purchase. And the distillery had the option to do the same thing, with the same terms. Of course, the whisky would return to the distillery, because if price increased, the distillery would capitalize to get its profit and, if the price decrease, the bank would send it back to avoid loss. The distillery needed the whisky for production and, actually, the whisky never left the distillery; they paid the interests quarterly. Lawyers would say that there was not a sale; no, this was not a sale but, rather, a loan that had this distillery stock as collateral for the debt. Accountants cannot look at legal features. We have to look a bit further and to think in economic terms subliminal to the transaction. This is what turns Accounting into a profession. This is why we cannot have rules for everything. We need to look at a transaction and ask ‘what is this?’, ‘faithful representation’, ‘this was a loan and not a sale’.

This standard of download of assets dealt very well during the crisis; we could analyze the dissemination of these information and we use this.

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In this quarter, consolidation. We consolidate more than the USA. The Deutsche Bank stop using the US GAAP and consolidated over 200 corporations that had been consolidated with American standards.

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Our standards were not perfect also. We found out right in the middle of the crisis that banks were getting back investments-vehicles that they placed where they did not have any participation, control or guarantee – and, even so, these vehicles returned, for example, controlled that were having losses. One of the reasons why this returned it is because banks had created them; they had placed those subprime mortgages; for some they had sold loan securities to finance sales; they kept the
funds and kept watching, while the subprime sector collapsed simply in relation to values and, of course, borrowers felt that banks had jeopardized them. Then, they threatened with legal suits if banks made them to return. However, risks were not obvious, then we had to enhance evidences to state: ‘Ok, this was not consolidated, but look at what is in there, and here is the information on this’.

Measure the fair value. Actually, how can we determine it, when we have to do it? The United States, for example, shall publish a very similar standard in the coming weeks.

And the retirements? This is a very important issue in the world since people developed a horrible habit to live longer and this must stop because it is costing too much.

People need to realize that when you promise something, what does it happen? Well, in retirement funds, assets values may decrease, but what really hit funds are low interests rates. For example, if you promise someone a $10.000 retirement and interest rates are at 10%, you must set apart an amount of $100.000; but if interest rates get to 5%, you must set apart $100.000. This is the reason why retirement funds really have several problems worldwide. They are not able to make funds to flow in. Here are issues that we are discussing with FASB.

When do you acknowledge revenue? This affects every corporation in majority of transactions. In 95% of the time, there will not be any change, but in 5% there...
will be. For example, the owner appropriates something that you are doing and then you may record revenue. I know that some of you here had problems with civil construction; we understand this, and, suddenly, perhaps we are been a bit too hard.

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Leasing is a large industry. One of my ambitions before dying is to fly an airplane that really is in airline’s equity statement. Why are not they airline’s property? Because leasing are things really harmonized, but they are useless. They do not work as they divide leasing into operational and financial. In operational leasing, one acknowledges as expenditures, and every year you must pay. In financial leasing, you have to set a current value for the assumed debt, which is acknowledged in liabilities and, in the other side of the statement, you acknowledge the right over the asset. The rule, actually, ends up been that if current value is 90% of the asset value, you capitalize this asset. Well, this here gets to 88% because they do not want this in the statement. But, if we change this to 80%, everyone will enter 79%, because this scheme was designed for not been in the statement. Why aircrafts are not in the statements? Because airlines usually lease aircrafts for seven years, then it does not get even close to 90%.

Let’s return to the Conceptual Structure. You have a liability that you cannot escape from it. For example, we have a legal contract, you must make this payment for seven years, and you can measure this reliably; it is in the contract. This is a liability. In the other hand, you have in there the right to use a 747, for instance. The industry tells us that we are at the end of civilization, as we know, but this is a liability and we really are going to see these amounts. We are talking about a 600 billion dollars industry that is not in the statements, for example. These are liabilities. This will not affect the net value, as there will be an asset in the other side. This is why, even with all argumentation, we, the IASB 15 and the FASB (Financial Accounting Standards Board) are going to place this in the statements this year.

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And, the Financing Instruments? Many of you adopted the IAS 39 (standard IAS 39 – Financing Instruments: Recognition and Measuring), and I tell you that if you understood IAS 39, you did not read it suitably as it is very complicated. We inherit this standard and we are in a process trying to simplify it. Ricardo (Lopes Cardoso) and Amaro (Gomes) will talk to you a bit more on what we are doing, but we have teams that are visiting other places. Felipe (Perez Cervantes, chairperson of the Consejo Emisor del CINIF) told me that they visited Mexico, last week, checking the hedge. We are trying to present a completely new proposal for these hedge accounts.

These hedge accounts seemed something problematic. How would we be able to restrict this? Corporations make this hedge for good reasons. What we are trying to do is to capture the economic rationale of these hedge transactions. Much more hedge transaction will be accounted in the future. Amaro [Gomes] will detail them next.

Similarly, when we analyze assets and liabilities classification: fair value in view of outcome, available for sale in view of other encompassing outcomes, recycling, kept until payment date, loan accounting… It is a mess that is why we got rid of them. The IFRS 9 has two categories: do you which will be the cash flow? And you will keep the financing instrument to undertake such cash flows? Then, you may have them with cost.
Otherwise, it must be through fair value in view of the outcome. What does this mean? If you have a loan or a debt instrument, you have interests on this, and you must give back the money; you may measure this through cost. Equity Instruments, you do not know the income they will provide; derivative, you also do not know; the exotic, also; and securitization, you also do not know this. Therefore, all of them are measured by fair value.

And it is very simple, really; we have already the support from Brazil, Japan, Australia, New Zealand, and Hong Kong have adopted this already. This is what will replace the IAS 39.

We will look also into loss due to irrecuperability. Banks, for example, provide this too late. And the rules are very clear, because at the time that there is indication that something is wrong, you do not expect that corporations will pay the debt. Thus, for instance, you have a deceleration in the oil sector or in civil construction, we start to supply this as soon as you identify deceleration. You do not wait for the firm to inform, for example, ‘I am not able to pay’. If these firms get in default, do not wait to make some decision. Therefore, we are changing the announcement to make it more rigorous.

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We are in a very fast pace, since accounting is quite different now than it was in 2001. And, of course, in ten years it will be different. What we are trying to do is to complete all this until June 30, and not only because I am stepping down, but because several other countries are changing this year, and they do not want to have to change twice in the next. We would like to give the opportunity for them to do this.

G20 informed us that we needed to finish by June. SEC is to decide in coming November or December, and the more we are able to accomplish until then, easier will be their decision. I think that if we postpone this process, things are not improved. We changed the way to categorize financial liabilities and assets in the IFRS 9 in eight months; the former IASC (International Accounting Standards Committee) took six years to write the IAS 39. And the reason that we were able to do this was that we discussed the ideas with corporations and we outlined afterwards a preliminary draft to show to everyone. Then, even before the letters arrived, we knew which would be the questioning; we know that is how standards will be set in the future.

This is why we are here. At this moment, we are analyzing Latin America because you have large corporations and they have, yes, all the issues that other corporations have. And that is why we are here to listen to you, gentlemen.

Therefore, we are engaged in a much more proactive manner than previously; we are accelerating everything. And it is all online. You can, for example, to attend online our meeting at the Council; we have webcasts after meetings. And we will continue like that because the more outreach we are able and the more participation we get, more assured we will be that we have the correct answer. And after completion of this standard, of this norm, it will not be the end because after you use it for two years, we are going to ask: ‘Is everything alright? Is everything working? What can we change?’ We are going to undertake a review and in two year we, once again, “revisit” these norms to look into them. And we would like that you take this look also.

We are finishing an agenda in 2011. What do you think that we should do now? Europe decided what it wanted us doing for the next five years; the USA for the next five, and I think that now is your turn. What do you think that we need to fix? What does Asia think that we must fix?
And I stress here, once again, that we are not an European standards Council, and we do not work for the USA as well; we are all of us.

There is here a list of requests.

(slide 26) (slide 27)

Accounting recognition of inflation can be one more. Then, what do you think that we should do? These are the norms that we will ask you to analyze, which we issued already and you may state: ‘Well, you should revise this norm already, make a few amendments and reparations.

(slide 28)

We had several arguments during the crisis. We are in favor of what? We had Merkel (Angela, chancellor), from Germany, Berlusconi (Silvio, Prime minister), from Italy, and the French President Sarkozy (Nicolas) stating that your work is stability and not transparency. But we do not agree with this, since markets do not collapse through provision of much information, but, rather, due to few information.

Uns suited information do not improve investor’s trust; they jeopardize it. When corporations are getting into bankruptcy, and we in an economic crisis, politicians want us to make things easier. But this is not my job, what I have to inform is what it is happening in the best possible way. This does not mean that we are going to ignore financial instability; it would be futile doing this.

But, there are other ways. Regulators would like that we should set excessive provisions in years that corporations get profits to avoid paying bonus and dividends, and to revert in the year in which the enterprise has losses, to preserve capital. This is the regulators job, yes, but not ours. We can do this, but in a separate demonstration, not in the DRE. We can take, for example, the profits and say, I do not know, 20% or whatever figure, and to appropriate this figure and place it in a reserve. For instance, if you do not like this income due to figures modeled to a fair value, you can withdraw this also and not allow them to distribute this. But, actually, this is not the role of an accounting standards issuer, but, rather, a regulator’s role. And we need to argue if fair value is better than cost because in some situations they would be, but in others is not really this that happens.

Another aspect of the discussion: Are we international or regional?

Be sure that your government is involved in any debate on global standards: of structure, of governance, and on what we are doing, as we need support. You are part of G20; thus, try to use this because some countries are trying to use this in order to be able to get benefits for them. And this is why we need your participation.

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And if you think that we are wrong, please let us know. I will stress this even more tomorrow (meeting undertaken at CFC in 02/04/11), with Latin American accounting standards regulators. It is not always that we are right, then, help us to be right. As soon as you know, let us know. Actually, we have here a partnership, is collaboration. We are not 15 individuals that decide on everything, but, rather, 15 individuals issuers of national standards trying to get a good answer. We have many features. For example, like what you did here, adopt, do not get the majority and adapt it, because later you will have all those changes that people will say: ‘Well, you are not really IFRS; what else are you doing?’ And capital cost will not reduce. If the entire world does this, all this experience on setting global standards will disappear. There are parts of the standards that I do not like, but I lost, because of vote, and I have to accept. And this is what we must tell other countries. If you do not like, accept, adopt, and afterwards you argue your case.

I give advices rarely. When I bought my house in Edinburg, there was a strange plant in the garden. I thought it was a manioc tree, but the neighbor who did not like former dweller’s life style said it was marijuana. Thus, I had a problem. I called the Gardens and Parks Secretariat, the technician analyzed the plant, turned to me and said: ‘I do not know either what it is, but if you are really worried with this, take a few leaves, dehydrated them and smoke; if later you are still concerned… this is manioc’.

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We have several arguments, but the advice that I give you is: there are two ways in which the international standard may be developed. Our standards have between 2,500 and 3,000 pages, and the American standard has over 17 thousand pages of norms. Which way do you prefer? Principles or rules? We issued last year an interpretation and the USA, 20. We did it for the entire world, and they did for just one
country. I am going, therefore, it will not be my decision, but we, intentionally, stop them. Then, if the standard changes, change the standard, do not remain adapting to rules. Because, it is all rules. And this is why we are writing short statements, and people come to us saying: ‘Look, what shall I do in such situation?’ And our answer is: do your best; you are a professional; all principles are in there, think about them.

When I started accounting, there were not standards. Many people above me taught much about accounting. We are professionals; we are not a search tool. Then, it is not making a question and there comes a reply with everything. That is not why we are here. If you wish to be good professionals, keep like that too.

We write standards for this. We try to write them having a basic principle. The USA has five standards on leasing and around 20 interpretations, but nothing related to the statement sheet.

We do not need four standards and 20 interpretations for each of them. You want to know what happens when you are going to make a renewal or when you are going to make a residual covenant. When we did, at the beginning, it had four pages. This shocked several people, mainly the auditors.. But, yes what happens afterwards, what happens here, what happens there. Thus, principles or rules; this is what I have to think. Do you want a thick book? or do you want to use good sense?

Testimony

Nelson Carvalho
International Relations Coordinator of the Comitê de Pronunciamentos Contábeis (CPC)

My first contact with Mr. David Tweeddie was in 1996. At the time I was part of the delegation of the International Association of Financial Executives and Institutes – an international entity that had a seat on the Board (the former IASC Board – a committee that preceded the creation of the IASB). And Mr. David, then, was part of the delegation of England.

We interacted technically when we met a few times a year in plenary meetings and, since then, from that moment on, I began to admire the many facets of David, as for example, his thorough understanding of technical accounting issues. David Tweedie, since that time, already had very pertinent comments, often surprising, about the issues being discussed.

Upon taking on the presidency of the IASB for the first time in 2001, Tweedie led an internal process of forming a board of directors (Board) members in an exclusive dedication routine – it was not so until the year 2000 because the members did not relinquish their organizations of origin – where it was decided that, from 2001 on, the IASB board members were to dedicate full time. This was, for example, the line of action which he conducted, allowing the recruitment of the first Brazilian to the Board of the IASB, which was Amaro Gomes, who is serving his first term.

David was always an enthusiast of Brazil and supported us in organizing various technical meetings between the IASB’s technical directors and members of the CPC. Now that Brazil is leading in the formation of accounting standards for issuers from Latin American countries, he is particularly happy, because he was the original promoter of the idea that the region would have a unique voice through a regional group. David Tweedie was a remarkable personality in the course of carrying on the international standardization. The seed was planted and his passage by the IASB was a watershed in the history of world Accounting.
We are trying to give accounting back to the professional and to the finance director. We do not give answers for everything. Then, professional opinion must mandate. It will not work if people are misled. If, suddenly, people go out naked in the beach today; we have to place them back. It cannot be done like that. We are going to set rules for this, for good companionship.

If you let lawyers to get involved, then you will have big problems. In the USA, I do not know if you realized already, but there Medical Schools use lawyers in their experiments instead of mice. And the reason is that there are more lawyers than lab mice there, and also because lawyers do things that rats refuse to do and, really, in the end people like mice very much, much more than lawyers.

I remember, inclusively, to have heard a lawyer in a hearing in New York; he had a paper, perhaps twice the size of this one here, and he stood up saying, ‘Here is a copy of the first Constitution of the USA; it sets forth on the States, the Federation, citizens, and all international governments’. That was it. A piece of paper, and he folded it. With much difficulty, he raised a book that thick, and said, ‘Here are the FASB rules on the financing instruments. Which one do you think that I will prefer to defend in court? I can defend a principle, and if you missed something in page 2,347 you are ruined’.

And there you have the choice for the future. It will be your future, not mine. I am retiring. People will ask me what I think, for example, of the IFRS 10 years from now. Will it be based in principles? I tell you: it does not matter, it is not my problem, and I will not be here; it is your problem, you will remain.

I hope that you run away from this, because you will not get another chance. Once you got to the rules, you will get stick to them. Think about those little children who will come and will have to learn this bundle of thick book. Then, it is important that principle make sense. If you keep interpretations of each rule, if you do not like economic volatility and a series of exception

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Testimony

Juarez Domingues Carneiro
CFC President

David Tweedie was the great idealizer and visionary in matters relating to international accounting standards. His leadership ability and the pursuit of world accounting integration resulted in the recent creation of the of the Latin American Group of Accounting Standard Setters. The Presidency of the Group fell to Brazil, the Vice-presidency to Argentina, and the Directorships to Venezuela, Uruguay, Chile and Mexico. Undoubtedly, all this work was conceived by David was conquered with great wisdom, due to his professional spirit and its ability to unite people. I want to also highlight the participation of Brazil and of Brazilian professionals in the international accounting bodies. I remember that for the work done here in the country, we exported renowned accountants as, for example, Nelson Carvalho, Amaro Gomes, Ricardo Lopes and many others that are still to come. In fact, Brazilian Accounting is living its peak. Today we are heard in the big decisions that permeate the public and private powers. David Tweedie when visited Brazil for the first time, was amazed at the work done by the accounting class, and in that moment, he was sure that we would have full conditions to head a group of representative with so much expression in Latin America. Certainly, the work of David will perpetuate for several generations. This was only the starting point for great achievements in the accounting area.

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Juarez Domingues Carneiro
CFC President

Testimony
for each rule. If regulators state: ‘Look, we know and we want to do this in another way’, this is a rule already. Inclusively, we state this to SEC. Thus, we are writing standards because we want to remove standards based on rules. There are many things that still need to be reviewed, like, for example, income tax. A series of things that still are plastered by rules.

For example, when we pray the Our Father, it has 57 words; the 10 Commandments have 297 words; the American Declaration of Independence (a big mistake that was made) has 300 words, and the European Commission Directive on Imported Goods has 26,911 words. That is, the trend is that documents with words, many words. This is your last chance to keep it this way, I hope you will succeed. Then, to finish, what are we trying to do?

Coming back to the Asian crisis. We are trying to reduce capital cost, making that everyone understand accounting, in all places; increasing investment level, increasing growth, and better management of corporations.

When we speak about what we are doing, actually, you analyze, for example, the American car industry, and the health sector. They even promised that retired employees would get health plans from retirement date until their death. Then, when one starts dying, starts to get sick – these things happen. Health services are expensive, and they had not accounted for this. When they made the budget for it, they had quoted in 73% of net equity; they did not have the slightest idea on how to pay. And this is why GM, before making a car with 1,500 dollars cost in employees’ benefits, in Japan pays 100 dollars. See what happens. We need to account correctly.

In spite of people not liking it. They may not understand how it works. And this is how we try to do.

We have other projects too. Insurance is more difficult. Returning to the industries; the inflow funds and after the services, we know what the debt is: the cashier. But which is the credit? Is it liability or is it revenue? And how much? This really is difficult.

Management report, this is the future. Here are the accounts; here are the facts. Then, you will be able to explain. And the management comments should be one of the communication mechanisms in the future.

Therefore, when they ask me what we are doing, often I never asked what are gaining. It is not a matter of winning or losing, we are playing dart game in the Olympics. Often, for example, people stay there sitting, evaluating, and assisting. We have to show people what future waits for them, which future they will get; what kind of international standards. We are not discussing Accounting; we are talking, actually, about macroeconomics. This is why that we get organized, that you present your opinions to us. Do not let just the 15 of us in the Council decide. We must have collective views. I do not want 20 views from 20 countries, because it will be impossible. We want to know the basic view from this part of the world. The USA will state a single voice; Europe will do; Asia is starting already, and you too must get in.

Meanwhile, I would like to say that it was pleasure in the past years to come to this part of the world; I will miss here. I thank your hospitality, and good luck in applying the IFRS. Thank you very much.