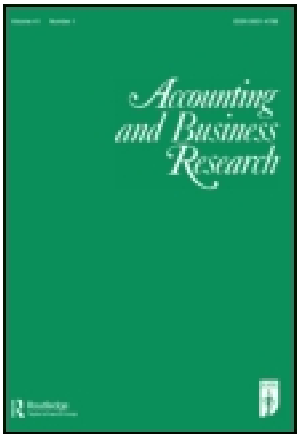

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Discussion of 'Different approaches to corporate reporting regulation: How jurisdictions differ and why'

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Discussion of 'Different approaches to corporate reporting regulation: how jurisdictions differ and why'

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I think there is some good research and some good thinking, and it is an excellent paper. I do not completely agree with the paper's conclusions, particularly as regards the global positioning system (GPS), because I am not completely convinced that will work and I will say a little more about that. In terms of the conclusions, when I looked at them and thought about them and thought that I was not necessarily agreeing, I started to think through why I was not agreeing and where we parted company.

I think there is a question that should have been pursued slightly more vigorously, and that is: what do you mean by regulation? The term 'regulation' is used in the paper, talking about rules and enforcement. The paper refers at one stage to protection versus informing, and I think that this is something we have seen in recent months very, very strongly, coming from some countries, where I think there has been a conscious blurring of what we are talking about when we talk about regulation. The paper has referred repeatedly to financial reporting regulation, but I would just like to dig underneath and ask: what do we mean by financial reporting regulation?

It seems to me, coming back to the idea in the paper that International Financial Reporting Standards (IFRS) is a 'language'. I think that is essentially what we are talking about. We are talking about accounting and financial reporting. I know the paper makes a distinction between the reporting rules and the practices but we are talking about accounting as being a language and how do you inform? We started in the position where we had a lot of different languages. We had languages that were not communicating. The idea of international financial reporting is around coming to a common language, and that seems to me to be a highly desirable thing to do. You will have a better understanding and greater confidence if you are using a common language. But it is rather naïve just to think we will say: 'Okay, we will have a common language and that will make everybody understand what everybody else is saying.' You will not. You need some sort of standardisation.

What we are really talking about when we talk about financial reporting regulation is, as the first step, that standardisation. It is around trying to have certain words carrying the same meaning cross-border. I think where this becomes very important is when you take the paper's analysis around convergence being unachievable. The paper refers to convergence as though it is an absolute. We will never get to convergence. If you think of any language you will never get to convergence in that language. No two people will ever use the same phrase in the same way in describing something even if they are speaking the same language. What we are trying to do in financial reporting is to move to a position where we have a single language, IFRS, that we are using. Long-term we will endeavour to make that as consistent as possible.

What do I mean by consistent? I do not mean without accent; there will always be cultural, national accent to accounts, to financial reports. That is natural, and I think that is what we are seeing from some of the research into clusters, namely that you will see the accents. Where we probably are at the moment is that we have dialects. The difference between a dialect and an accent is that accents are around the way you pronounce words, the emphasis you apply, the general thrust of how you say things, but the words are broadly the same. With dialects there are words that are different. If you take the English language as used in the UK, there are regional dialect words. We are at that stage, and we need to pull that together, but we are never going to get convergence as an absolute because convergence is not an absolute in terms of language – it is a bringing-together.

The paper talks about clusters. It talks about the forces that tend to pull apart a lot of those natural

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cultural and national forces, and they will pull apart. If you think of language over the last century or so, where there has been much greater communication, much greater travel, languages tend to drift together. I think there will be a natural tendency for languages to drift together, which is why we are losing, even within regions in the UK, the dialects. Those differences are tending to die out naturally, and I think that will tend to happen in terms of financial reporting.

I would draw a distinction in financial reporting regulation between the coming together in the way I am describing, the common language, which seems to me to be in everybody's interests, and the enforcement of the regulation, which is something quite different. You do need enforcement. You do need to make sure that people are not lying. You do need to make sure that people, although not lying, are not misleading. And it is that latter point that is probably the most interesting, because I do not think a lot of people out there actually lie in their accounts. There are some people, albeit a relatively small number, who try to shift the emphasis to mislead.

That is where enforcement comes in and where the role of the regulator comes in. I am not saying that IFRS financial reporting is completely different from regulation and that there is no regulatory role to it. Clearly there is a regulatory role to it, but you need to understand that language role where the pressures are different. That regulatory role has been used a number of times recently around bank regulation, around procyclicality and similar issues, to confuse what I see as the language for everyone.

As regards the GPS, that is concerned with the enforcement of everything, not the development of the language. I do not think it would work anyway; it is just too big. The paper refers to it in relation to reviewing accounts, about it having powers of access, about having sanctions. The paper talks about sanctions including exclusion from the GPS. One of the things that sprang to my mind was: what do you mean by sanctions?

If I just look at it in terms of size, if you think what the SEC does in the US, if this was going to be done on a global basis it would have to be *that* much bigger. The paper refers to having a panel of auditors, so you have something of the size of SEC plus the PCAOB if it was on a global basis. I think it is too big.

It is not just a matter of size, I think you would hit the major problem that we already see with Europe. As soon as you see something where there are sanctions, where there is enforcement, local legislators say: 'Hang on, I do not want you enforcing that on my companies' or 'I am not going to enforce those conditions on my companies, and your approach contradicts my approach. Therefore, I am not going to let yours in without some sort of endorsement mechanism.' I think the endorsement mechanism would start producing what in the EU is called carve-outs, and that would potentially break the GPS apart. So I think it is too big for that. I think it would not work from the point of view of other legislators not accepting it. I also think it is unnecessary. You have to separate out the enforcement regulation from the standardisation. I see the enforcement regulation as being different from financial reporting. Standardisation is trying to make the language common and trying to move a common language across the world, which seems to me to be a desirable objective from every point of view including the companies' point of view.

I come back to the basic question of the conference: who should lead corporate reporting, markets or regulators? My answer to 'lead' is 'markets' – because this is about language that markets use. If I talk about 'enforcement', that would be for the regulators. The leadership derives from the markets.