STATEMENT BY THE BOARD OF THE INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE

DECEMBER 2000

INTRODUCTION AND SUMMARY

This Statement was approved for publication by the Board of the International Accounting Standards Committee at its meeting in December 2000, in contemplation of the hand-over of its functions to a new Board. The Board is pleased that agreement was reached unanimously about the restructuring of IASC and wishes the new Board success in its endeavours. The purpose of the Statement is to comment on current work in progress and record some of the thinking of the Board resulting from its work on agenda items in progress and other discussions. The Board hopes this will be helpful to the new Board.
The Board draws the attention of the new Board to the following agenda items in progress and hopes that the new Board will continue work in the areas concerned:

- *Business Combinations* is important to the objective of achieving convergence and in addressing the controversial question of whether pooling of interests accounting should continue to be allowed for mergers.
- *Discounting* is expected to help with implementation of requirements to measure assets and liabilities at fair values.
- *Reporting Financial Performance* is needed to improve requirements for presentation of information about income and deal with the question of which, if any, items should bypass the income statement.
- *Insurance and Extractive Industries* are needed to specify accounting for specialised transactions and are important for the goal of having comprehensive global accounting standards.
- *Financial Instruments* is an area of continuing importance where the main objective is to consider action to follow up on the report of the Financial Instruments Joint Working Group.

The Board also comments on other possibilities for the agenda of the new Board:

- A priority should be to review existing national and international standards and work on areas where major differences exist in order to promote *Convergence.*
- A new *Improvements Project* may be helpful for dealing with areas where relatively minor improvements are needed in standards and could usefully include a review of provisions for transition and first time application.
- *Accounting for Share-based Payments* is an important area where no international standard exists at present.
- Work on *Intangible Assets* is a high priority for the convergence project and should be cast widely to ensure that users of financial statements are receiving sufficient information about such assets.
- *Narrative discussion* outside the notes to the financial statements has been outside the scope of the Board of IASC but it will be within the scope of the new Board under the new constitution and is an important area for complementing requirements relating to the financial statements.
- IASC's *Framework Document* is in need of revision and this may be undertaken partly in conjunction with standard setting projects that involve development of concepts – for

example, *Financial Instruments* and *Reporting Financial Performance* – and partly through a separate comprehensive review.
- *The Preface* to IASC's standards needs revision to bring about consistency with the new constitution, to explain the significance of certain features of the structure of standards and to explain the standing of guidance such as that being issued on application of IAS 39, Financial Instruments: Recognition and Measurement.
- A demand exists for a special version of International Accounting Standards for *Small Enterprises.*
- A review is needed of provisions dealing with accounting for inflation in International Accounting Standards.

In addition, the Board encourages the new Board to:
- *Continue the present style* of International Accounting Standards with a focus on principles;
- Continue to support the work of the Public Sector Committee of the International Federation of Accountants in developing a set *of international accounting standards for the public sector;*
- Monitor developments in *electronic financial reporting* to consider whether, at some stage, special standards are needed to deal with new approaches in such reporting; and
- Consider, with the Trustees, what role IASC should play in promoting *regulation to secure effective application* of International Accounting Standards.

STATEMENT

1. This Statement was approved for publication by the Board of the International Accounting Standards Committee at its meeting in December 2000. The December 2000 meeting is expected to have been the last meeting of the Board before it hands over responsibility for setting International Accounting Standards to a new Board, in accordance with the new constitution approved by members on 24 May 2000. The Board hopes that the Statement will contribute to making the handover as efficient as possible. Its purpose is to comment on current work in progress and record some of the thinking of the Board resulting from its work on agenda items in progress and other discussions. The Board recognises that the new Board will make its own decisions about priorities for its work programme. This statement is not an endeavour to constrain the new Board in any way but rather to provide information in an organised and open manner.

2. The Board is pleased that IASC's member bodies agreed unanimously in May 2000 to adopt the new constitution which it had approved, also unanimously, at its March meeting. The restructuring of IASC, together with market factors, creates an excellent opportunity for working with national standard setters to reach agreement on global accounting standards, standards that can be used by international enterprises and large and small national enterprises alike in preparing their financial statements. At the present time, all major countries of the world except for the United States and Canada accept, at least to some extent, International Accounting Standards for reporting relating to cross-border listings, without reconciliation to national accounting standards. Several countries have adopted International Accounting Standards for use in lieu of national standards and many others use International Accounting Standards as a basis for decisions on national standards or as a focus for national efforts to achieve a greater degree of harmonisation with international opinion. The decision in May 2000, by IOSCO's Presidents' Committee, to recommend International Accounting

Standards for use in connection with cross-border listings, subject to possible national requirements for additional information, was a major step forward. The proposal by the European Commission to require all companies that are domiciled and listed in the European Union to report in accordance with International Accounting Standards by 2005 was a landmark for international harmonisation. The decision on restructuring IASC, with the enthusiastic support of the US Financial Accounting Standards Board and other national standards setters, and with a warm welcome from the SEC's Chief Accountant, showed the way forward to the main goal of global accounting standards.

3. We recognise that many difficulties remain to be resolved, and much hard work will be needed, before the goal of having global standards is reached. However, the potential benefits are very large. The ability to use one set of accounting standards throughout an organisation and for all purposes has the potential to produce large cost savings. Worldwide, the savings for businesses could amount to billions of US dollars each year. Large cost savings are also likely to accrue to auditing and other professional advice to business enterprises. The effects in terms of improving the efficiency of the working of the capital markets will be among the most important benefits. Investors will also gain more directly, not only through cost savings in carrying out investment analysis, but through having high quality, transparent information on a comparable basis; and business operations are likely to benefit through reductions in the cost of capital as a result of reductions in uncertainties in the information available to the markets. Furthermore, achieving the objective of macro-economic stability in the global economy will be advanced through the increased efficiency of the capital markets and the improvement in information available to investors. We believe that the progress already achieved in harmonization, together with the very strong market demand for global standards and the good qualities of the new IASC structure, make the goal of global standards attainable. We give the new Board our very best wishes for success in their endeavours.

The Style of Accounting Standards

4. Different standard setters adopt different styles for their standards, depending on the legal environment, cultural and political traditions, and other factors. Some produce detailed rules, leaving little to individual judgment. Others concentrate more on the general principles and leave more to judgment in applying the principles. IASC has followed the latter course. An approach that relies on very detailed rules has dangers because it may obscure the underlying principles, make the requirements less easily assimilable, and encourage the attitude that an approach may be adopted if it is not prohibited by a specific rule. While recognising the need for standards to be detailed enough to avoid unintentionally giving choices, the Board encourages the new Board to continue IASC's present practice in this regard. The Board believes that the present style of its standards is more appropriate than other approaches for a set of international accounting standards and, together with continuation of an active role in interpreting standards, is likely to lead to effective implementation.

Need for a Project to Achieve Convergence

5. The path established by IASC's restructuring decisions for achieving agreement on global accounting standards is through convergence of national and international standards. The Board recommends to the new Board the adoption of a plan for achieving this convergence as a top priority. As a result of its 1995 agreement with IOSCO, the Board adopted and published a major work programme for establishing new standards and revising old

standards, to be carried out over a period of about three years. This action was very beneficial to the Board. It gave its constituents an indication of what to expect in the form of output from IASC; it helped the Board to focus on essentials and other high priorities and was conducive to effective progress.

6. The new Board may wish to consider a similar approach to its convergence efforts, by publishing an initial work programme for three to five years, committing itself to reviewing international and national standards for areas of accounting where the greatest differences among standards exist today, and giving highest priority to eliminating the differences that cause the highest costs for businesses and investors. Work on an area of accounting may qualify as a high priority, even though there is currently substantial agreement between the International Standard and standards in some countries if important differences exist from standards in other such countries.

7. This Statement does not suggest detailed priorities for the convergence programme, recognising that this should be a matter for decision by the new Board. Much work is going on that will help with the choice of priorities.

8. However, it is worth mentioning that the Board adopted in 1999 an agenda project on business combinations, particularly focusing on the conditions that must be met if the pooling method rather than the purchase method is to be used for mergers, and, indeed, whether or not the pooling method should continue to be used at all. This project is still in its early stages but agreement on a global standard for business combinations would make a major contribution towards improving the comparability of financial statements worldwide and the Board recommends accounting for business combinations for consideration by the new Board as a high priority.

9. Another area where early work is likely to be important for convergence is accounting for intangibles. Significant differences exist among the standards of IASC and national standard setters. The Board completed work on IASC's first general standard on Intangible Assets (an earlier standard dealt with research and development expenditures) in 1998. This covered a wide range of items, including research and development, licences, patents, trademarks, staff training, production quotas, mastheads and brand names. It was an important project and a difficult one. As time goes by a higher proportion of business expenditures, and of the value of businesses, relates to these intangible items. They have a claim in principle to be treated as assets because the expenditures, if they are successful, give access to future benefits, indeed sometimes to future benefits of very large amounts. However, good reasons also exist for reluctance to permit the recognition of intangible assets on company balance sheets, particularly internally generated intangibles. It is difficult to know when expenditures have resulted in assets, difficult to measure the costs that can be attributed to such assets and equally, or perhaps more, difficult to obtain reliable measures of some other attribute such as fair value.

10. The review of standards on intangibles should be cast widely. While a strong case will continue to exist for establishing strict criteria to limit the recognition of internally generated intangibles, work is also needed to find better ways of informing the users of financial reports about intangible assets. Accounting standards do not lead to inclusion of all assets on the balance sheet, much less to balance sheet measurements that aggregate to the total value of the business. Attention should perhaps be given to exploring supplementary forms of reporting. Direct forecasts of future cash flows, valuations by independent experts with or

without statistical information about activities and qualitative comment by managers may provide ways of providing useful information to supplement that in the balance sheet. Without development of such approaches, accounting may face a serious loss of credibility as intangible assets become more and more important.

11. The Board has worked on improving its standards over the years, notably through its Comparability and Improvements Project and, more recently, the work programme agreed with IOSCO. However, scope remains for further improvements to the standards through relatively minor changes, including eliminating some of the choices that are still provided. The new Board may wish to consider establishing another improvements project to deal expeditiously with minor changes to standards that are not high priorities for major revision. One of the topics that may merit special attention in such a project, or more generally, is the provision made for transition when a standard is revised and for first time application of standards. IASC's staff have prepared guidance on these matters to help with decisions by the Board. With the prospect that many companies will be applying International Accounting Standards for the first time over the next few years, further work on this matter will be important.

Fair Value Measurements

12. A number of the most recent projects on the agenda of the Board have raised questions about whether or not fair values should be used for asset and liability measurement. This can be seen as part of a growing trend in the authoritative accounting literature. Financial instruments have been the leading candidates for measurement at fair value and support has been shown for similar approaches for investment property and agricultural assets. Deciding on the extent to which fair value measurements should be used is likely to be a continuing focus for the new Board. This will, no doubt, be most evident in the important project to consider further revisions to accounting for financial instruments, following the recently published report, in the form of a draft standard, of the Financial Instruments Joint Working Group. However, the same issue will arise in other projects, for example in insurance accounting, where consistency between measurement of financial assets and liabilities on the one hand and insurance assets and liabilities on the other will be a major concern, and in accounting in extractive industries.

13. The reason for considering the possible desirability of measuring assets and liabilities at fair values is apparent from the conceptual frameworks of various standard setters. These give emphasis to the view that a major objective of financial reporting is to help its users to assess future cash flows for the reporting entity. Measurements of assets and liabilities in statements of financial position help with this objective. Measurements of assets can be seen as indications of means already controlled by the business for obtaining future cash flows, and measurements of liabilities as indications of claims of others to some part of future cash flows. Fair value measurement represents the present value of future cash flows and therefore can show directly the potential contribution of an asset to future cash flows of an enterprise or the claim on future cash flows in the case of the liability. The fair value may be measured as a price in an active market, where such a market exists, and that price can be assumed to represent a kind of consensus view of the present value of future cash flows. In other cases, fair values may have to be estimated directly from calculations of the present values of future cash flows, although, in this case, it is important to keep in mind that reporting should give objective information that users can use to assess future cash flows in addition to any information that is implicitly or explicitly an encapsulation of the subjective

forecasts of managers. The Board's agenda project on Discounting is expected to contribute to the development of guidance for the use of present value calculations in standards.

14. The conceptual frameworks of standard setters also emphasise the importance of reliability in measurement in financial statements. Use of unreliable measurements opens up opportunities for the management of earnings and may negate the usefulness of the information. This is a serious matter. True convergence of accounting standards will be obtained only if use of measurements that depend on management's intentions – as present value measures may do – is kept to a reasonable minimum. A decision on measurement must assess overall usefulness, taking account of both relevance and reliability, and so reliability can be a limiting factor on the use of fair values. If a current price for an asset or liability can be obtained from data about an active market, reliability can be high and a strong case exists for using the fair value measurement. However, often assets and liabilities are not traded in an active market and other possibilities for measuring fair value may be such that high reliability cannot be achieved. In deciding whether or not the use of fair values should be required in an International Accounting Standard, consideration must be given to the characteristics of markets all over the world and reliability must be assessed in relation to assets traded in all such markets.

15. Decisions on the use of fair values, which will be among the most controversial of all the decisions facing the new Board, need to be seen to be consistent with standard setters' conceptual framework documents. IASC's Framework is in need of review and revision and although such review may not be the highest priority in itself, it may be possible to take the opportunity to revise parts of it as work takes place on particular projects. The Framework should give guidance on the meaning of fair value and its relevance in relation to other current measurements such as replacement cost and realisable value; and it should give guidance on the situations in which fair value or some other current measurement should be used. The section of the Framework dealing with measurement is not as helpful at present as it could be. For example, the more can be said about how to assess reliability of fair value measurements in different situations and about acceptable levels of reliability, the more helpful the Framework will become.

Reporting Financial Performance

16. The recognition of changes in fair values of certain assets and liabilities can, if they are included in the income statement, give greater volatility to reported income numbers than previously. This has been a leading factor in prompting a review of the concepts underlying the reporting of financial performance, that is in reporting the items variously known as income, revenues, expenses, gains and losses. Good reason has existed for further work on this area, even before the recognition of changes in fair values gave added urgency to such study. Various standard setters have called for most components of financial performance to be reported in a statement of income or profit and loss but have allowed certain items to bypass that statement to become a direct addition to or subtraction from shareholders' equity. But no clear rationale exists for deciding which items should be allowed to bypass the income statement and, more and more, standard setters have been coming to the view that no fundamental justification exists for this distinction and that all such items should be reported in one statement.

17. The view that all components of financial performance should be reported in one statement, a single performance statement, rekindles an age-old debate about identifying

different components of income for reporting purposes. Early work in the United States on the conceptual framework for accounting reserved the term “earnings” as a label for a component of income that would, it was hoped, have particular significance as an indicator of managerial performance. The hope was, perhaps, to separate the items in the income statement into those that were controlled by management, and for which management could therefore be held accountable, and those that were outside managerial control. This search has not proved fruitful. No black and white distinction exists between things that are controllable by managers and things that are not. There are varying degrees of control, and hence responsibility, because, even where a business has to accept prices that are set in an active and perhaps volatile market, managers are responsible for decisions about whether or not to operate in such a market and the extent and nature of the operations. Others have focused more on a possible distinction between operating and non-operating items. Again, the approach seems unlikely to be fruitful. Everything a business does is linked to some activity that can be called an operation and no fundamental distinction seems to exist among different kinds of operations to signal a way forward.

18. Some people believe that no fundamental distinctions exist to identify components of income in a way that gives those components a special significance for assessing managerial performance. If this view prevails, a standard on reporting financial performance would need merely to identify the characteristics that called for separate disclosure of income statement items and perhaps secure a standardised display of such items so that the users of financial statements could readily find their way around the statements and locate items for which they were searching. Whatever the outcome, this is an important area on which more work is needed and it deserves to be considered by the new Board as a high priority.

19. A rather different aspect of reporting financial performance concerns accounting for the effects of inflation. Inflation continues to be an important problem in many countries of the world and difficulties in application of accounting principles persist. Further work on accounting for inflation should be considered for inclusion in the programme of the new Board.

20. The Board believes that a standard is needed for reporting financial performance to give practical guidance that will quickly make an impact on the usefulness of financial reporting. However, the area of performance reporting is another where the conceptual framework documents of standard setters are relatively weak at the present time and it would be desirable to incorporate the best current thinking in a revision of the relevant sections of the various frameworks.

Standards for Specialised Transactions

21. IASC has concentrated most of its efforts over the 28 years of its life on setting accounting standards that have general applicability to most types of businesses. In particular, the core set of standards identified in the 1995 agreement with IOSCO had this focus. However, many important international businesses involve specialised accounting issues. For example, decisions about accounting for assets and liabilities arising under insurance contracts cannot be adequately settled on the basis of the guidance in general standards alone (although they must be consistent with general principles), nor can the measurement issues relating to the assets resulting from the exploration and development activities of enterprises in extractive industries. The pervasive importance of banking indicates the importance of ensuring that International Accounting Standards secure an

effective portrayal of the activities of this special industry. While the fundamental principles should not fundamentally differ, if IASC is to meet its objective of establishing global accounting standards, the specialised industry application issues must be dealt with along with more general issues.

22. The Board recently adopted agenda projects on accounting for insurance and for extractive industries and a project to revise its standard on disclosures in the banking industry, which apart from the recently passed standard on agriculture, is the one area of specialised application covered by existing standards. On the first two projects, comprehensive discussion papers have been published for public comment. The Board hopes that the new Board will find that the work it has done on specialised industry matters lays a helpful basis for further work and that the new Board will complete standards in the areas concerned, and perhaps other specialised areas, in due course.

Accounting for Share-based Payments

23. The subject of accounting for stock compensation and payment for other goods and services by issuing stock is a topical issue that is controversial and of widespread importance. Payment by issuing stock, or options to acquire stock, or benefits of a similar kind, have been common in the United States for some time and are becoming more and more common throughout the world. This means of payment is important in industries using advanced technologies, particularly for start-up companies, where payment in stock offers the chance of large returns to the recipient without creating a drain on the scarce cash of the business. The Board has not adopted an agenda project on stock compensation and similar transactions but it attaches high priority to the development of an international standard on the topic and hopes that the new Board will be able to find resources to make an early start with preparation of such a standard.

Discussion of Financial Results

24. The provision of narrative discussion of the financial results, giving business background, interpretation and supplementary commentary, has long been a feature of financial reporting in certain countries. However, such regulations and guidance as exist for the content of these reports are not generally produced by accounting standard setters; and IASC does not have a standard for narrative reporting. The Board encourages the new Board to consider taking an initiative in this area. It acknowledges the strong interest of securities and other regulators in ensuring that these narrative reports have appropriate content. It also sees strong benefits from action by accounting standard setters and suggests that co-operation between standard setters and regulators will be particularly desirable.

25. Narrative reporting to supplement the financial statements may be essential to the provision of useful information to the users of financial reports. For example, the narrative reporting can provide additional information about assets recognised in the financial statements, in the context of explanations about the nature of the business, and it can also provide explanations of expenditures that may enhance future cash flow prospects while not meeting strict accounting criteria for recognition as assets. A narrative report can also give important information about the risks facing the business and steps taken by management to limit those risks, matters that need to be reported in conjunction with information in the financial statements, and therefore are important matters for accounting standard setters. Developments of the Framework may be helpful for provision of a sound conceptual basis for

narrative reporting. The objectives of IASC, set out in its new Constitution, have been drafted to put such narrative reporting within the scope of activities contemplated for the new Board.

The Conceptual Framework

26. This Statement has already dealt with three areas where revisions to IASC's Framework document should be considered, possibly in conjunction with work on new standards: narrative reporting, reporting financial performance and the use of fair values for measuring assets and liabilities. However, a more comprehensive review of the Framework also seems desirable. IASC's present Framework was written several years ago and, in several sections, the possibility now exists of giving more guidance in the light of more recent experience in developing accounting standards. Equally, recent work has highlighted a number of areas where difficulties exist and the resolution of the difficulties would be helped by further development of the conceptual framework.

27. One example of the need for more work on concepts is in accounting for leases, where present principles do not appear to be conceptually robust and progress will involve improvement in the concepts for the recognition of contractual rights and liabilities and improvement in the application of concepts. Need for further work on concepts relating to liabilities is apparent in other areas, for example the distinction between liabilities and equity items. The word "probable", along with similar words or phrases, is used in several existing standards and the use of discounting in accounting measurements has pervasive implications. Articulation of the concepts relating to these matters is likely to help with the resolution of difficult issues in several standards and could pave the way for a review of standards to ensure consistency. The Board established an agenda project on discounting in 1998 and progress with the project is likely to lead to new guidance on measurement for inclusion in the framework document and possibly also a case for revisions to individual standards.

The Preface to Standards

28. IASC published a Preface for its combined set of standards some years ago. This has the role of explaining the standing of International Accounting Standards, in the context of the Constitution of IASC and its procedures, and also giving information about the use of the standards. A need for revision of the Preface has been apparent for some time and the Board believes that the opportunity of a revision should be taken to clarify the relative roles of the so-called "black letter" and "grey letter" paragraphs in its standards, if this distinction is continued in future: the Preface should make clear that, while black letter paragraphs contain the main principles and grey letter paragraphs give guidance on the application of those principles, grey letter paragraphs are nevertheless important parts of the standards and compliance with the standards implies compliance with all the paragraphs, black letter and grey letter alike. Similarly, the Preface should explain the relative significance of the benchmark treatments as compared to allowed alternatives in IASC standards, again assuming that such distinctions continue; and it should explain the standing of guidance, such as the questions and answers on IAS 39, prepared with the assistance of the Implementation Guidance Committee. The Board has not undertaken a revision of the Preface because the change in Constitution and the consequent change in operating procedures would require further revisions and it was thought to be most appropriate to leave the new Board to decide on the precise form of the new Preface. However, revision of the Preface now seems to be a matter of considerable importance.

Standards for Small Enterprises

29. During the last few years, the Board has detected various indications that strong demand exists for more work on the application of accounting standards to reporting by small enterprises. The demand has been noted first in developing countries and countries in transition to market economies. People in those countries have commented that International Accounting Standards are becoming more and more complex as a result of focus on the needs of the largest multinational companies and users in the major capital markets. Small businesses make up a large body of the preparers who use International Accounting Standards in developing countries and the complexity of the standards is particularly an issue in countries where International Accounting Standards have been adopted under the law to take on the role of national accounting standards. However, the demand for consideration of the interests of small businesses also comes from developed countries. Those countries contain many small businesses and, although those businesses are not, at present, normally required to use International Accounting Standards, they are becoming more interested in doing so in order to achieve comparability with larger businesses and in order to participate in the overall cost economies that will result from having one body of accounting standards in use throughout the world.

30. The Board recognises the importance of the small business constituency. Although it attaches importance to the objective of meeting the needs of major multi-national companies in global capital markets, it also wishes IASC to continue to meet the needs of constituents in developing countries and the needs of small business in general. It recognises that a case may exist for having different accounting standards for small businesses and large businesses. Accounting standards must, for example, pass a cost-benefit test and this may indicate different conclusions for small businesses from those for large businesses. It also notes that some national standard setters, for example in the United Kingdom, have prepared a special version of accounting standards for small businesses. Although opinions vary, the Board inclines to the view that a case can be made rarely, if at all, for differences in standards for recognition and measurement as between large and small businesses; a stronger case for differences may exist with regard to disclosure standards and it may also be possible to do more to help small businesses through producing explanatory and guidance material, perhaps including standard formats. The Board commends these possibilities to the new Board for consideration.

Public Sector Accounting

31. During the last few years, the Public Sector Committee (PSC) of the International Federation of Accountants has started to produce standards for use by governmental and other public sector organisations including central governments. PSC have decided to do this by basing their standards on IASC's standards and introducing variations from IASC's standards only where some peculiarity of governmental bodies or the transactions they undertake make a difference necessary. The Board has welcomed the decisions of PSC about using International Accounting Standards and congratulates them on the progress that has been made. It believes that the important distinction is between for-profit and not-for-profit entities, including governments, rather than between public sector and private sector entities. International comparisons of the behaviour of governments and governmental bodies have great importance nowadays for macro-economic management of the economies of different countries and decisions on policies to promote global financial stability. The availability of

high-quality governmental accounts, achieving transparency and comparability, is vital to this process. Similarity between private sector and public sector accounting is also desirable for the efficiency it achieves for the users and preparers of accounts in the two sectors. Accordingly the Board recommends the new Board to continue to work with PSC on the achievement of their mutual objectives and to support PSC in its work.

Electronic Financial Reporting

32. The Board also wishes to comment on the importance of the new information technologies for financial reporting. The IASC staff recently published a study on financial reporting on the Internet and this provided an important reminder of the large and increasing number of companies that use the Internet for obtaining wide distribution for their financial reports. In one sense, financial reporting on the Internet raises no new issues. The fact that financial information is distributed electronically rather than on the printed page does not create a need for different standards to govern the compilation of the information. It is desirable that, where companies use electronic publication for their financial reporting, they should make available in that format the full audited financial statements complying with applicable accounting standards; and it is essential that they should indicate clearly which financial statements do so comply and which are summarised and abbreviated in various ways.

33. However, electronic reporting also raises other issues. First, electronic publication creates possibilities for subjecting the information to further analysis using standardised procedures and programmes. To take advantage of such possibilities, users must have access to the electronic information in standardised format. A set of reporting codes under a system known as XBRL is being developed for reports prepared in accordance with International Accounting Standards so that these reports can be used effectively. IASC staff have been taking part in the project to develop this system. The Board recommends that the new Board continues this effort.

34. At some time in the future, it seems likely that electronic reporting will have much more profound implications for accounting standards. Businesses may provide data banks containing selected items of financial information in raw form and these data banks may be updated in real time. While this development would set difficult challenges for preparers, auditors and others in ensuring the reliability of information in the data banks, it would create the possibility of users' having more up to date information and also, if the range of necessary information is provided in an appropriate way, of conducting a sensitivity analysis to show how the financial statements would look if different accounting assumptions were made. And the information in the data banks might be fed directly into analytical models, including forecasting models, using programmes chosen by the user of the financial reports. If this development were to take place, the issue for accounting standard setters might become the setting of standards about what information should be included in the databanks rather than the way the elements should be recognised, measured and presented in traditional financial statements. This is not an issue for today but the new Board may wish to monitor developments and be prepared to show leadership when new forms of electronic reporting seem likely to become a reality. As the use of electronic information gathers pace, developments of this kind might arrive quickly.

Application and Enforcement of Accounting Standards

35. The Board wishes finally to comment on a matter of a rather different kind. Effective financial reporting depends not only on high-quality accounting standards but also the availability of a vehicle for publishing high quality interpretations of the standards on a timely basis; equally important are high-quality auditing of those standards and also efficient enforcement activities by regulators. The work of the Standing Interpretations Committee, established in January 1997, has contributed strongly to providing a firm basis for auditing and enforcement. This Committee should continue to be given great importance in IASC's processes. The International Auditing Practices Committee (IAPC) of the International Federation of Accountants has been working for several years on the development of a body of international auditing standards. The Board attaches great importance to that work and urges IAPC to give high priority to securing IOSCO's endorsement of a core set of auditing standards in the way that IASC has obtained endorsement for its core set of accounting standards. Furthermore, it is not enough to have high quality accounting and auditing standards: they must be used in an environment that produces effective application of those standards. To this end, the Board welcomes the initiatives taken by a group of international auditing firms, in association with the International Forum for Accountancy Development and the International Federation of Accountants, to work towards the application of quality controls worldwide, based on International Accounting and Auditing Standards. The Board encourages the new Board to associate itself with these initiatives.

36. If a set of high-quality auditing standards is in place for use alongside a high-quality set of international accounting standards, and present arrangements are continued, as is planned, for issuing timely international interpretations of standards, the ingredients will be available for meeting the needs of the international capital markets. But the arrangements will not be complete. Regulatory supervision will be needed to ensure that a good standard of compliance is achieved. The Board recognises that different models for enforcement exist and that one particular model may not work best in all countries. The key requirement is for a regulatory body to be able to require the restatement of financial statements that do not comply with applicable accounting standards. IASC cannot itself deal with these other requirements for good reporting and yet its ability fully to achieve its objectives depends on them. And while some individual countries have strong regulators, many others do not, and no arrangements exist that promise to be able to supply consistent and effective regulation on a global scale. There is a danger that enforcement decisions may vary from country to country while some countries may continue to lack any kind of effective enforcement. And enforcement action at the national level may lead to the loss of some of the benefits that have been gained by global agreement on the standards. The Board strongly calls for new initiatives to create a global approach to enforcement. It also recommends that the Trustees, in consultation with the new Board, consider what IASC should do to promote rigorous application of International Accounting Standards. Initiatives on enforcement must be primarily matters for national regulators. Evident difficulties exist in forming a global regulatory body directly, at least at the present stage of international developments, but the Board hopes that the national regulators will be able to set up a mechanism, including exchange of information, that will limit the possibility that inconsistent enforcement decisions may be made in different jurisdictions. This may turn out to be one of the most important building blocks for the provision of good services to the global capital markets.

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