**Nicolas Véron**
ACCOUNTANCY

# Fuzzy oversight will not solve standards issue

The setters of international financial reporting standards have new bosses. Last Friday, the IASC Foundation announced that its trustees would from now on, in effect, be appointed by a 'monitoring board', which thus gains ultimate if indirect power over the International Accounting Standards Board.

The new group includes representatives of the US Securities and Exchange Commission, the European Commission, Japan's Financial Services Agency and two other members of the international organisation of securities commissions, with the Bank for International Settlements as observer.

But this move will hardly end the controversies about IFRS.

The IASB has not had a good crisis so far. It failed to lead when bankers in the EU and US unfairly scapegoated 'mark-to-market' accounting, which forced them to disclose losses they did not want to believe in. Only last month did an IASB group start a serious review of this still burning issue.

In October, the IASB agreed to amend a standard on financial instruments to placate angry governments, in violation of its own due process and to the despair of investors. David Tweedie, its chairman, nearly resigned but eventually knuckled under.

Republican Christopher Cox, the former SEC chairman and champion of IFRS, left without a firm road map for their adoption in the US. His successor Mary Schapiro has declared herself in confirmation hearings "not prepared to delegate standard-setting or oversight responsibility to the IASB".

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The monitoring board serves defensive purposes. The trustees can no longer be lambasted as a self-appointed group.

But the substantial legitimacy problems remain. A growing part of global markets, including China, is not represented in the new group. No link is established between the standard-setter's accountability and its funding, which for the moment remains a case of taxation without representation.

The identity of the monitoring board itself is fuzzy. It is not known whether it will have any formal decision-making processes, such as a chair or voting rules. The risk is of opaque proceedings which will do little to bolster public acceptance.

The trustees seem hesitant about the very nature of their organisation. They try to replicate the relationship that exists between national standard-setters and governments.

But the success of IFRS has come from its orientation towards investors and other global market participants.

By missing the opportunity of clear empowerment of users in IFRS governance, the trustees risk finding themselves torn between conflicting objectives.

A case in point: some have proposed that financial stability become a formal aim of the IASB, but no consensus exists on what that means exactly. If buffers or 'dynamic provisions' are introduced to correct procyclical effects of capital regulations, it is not the same to embed them in IFRS or in separate calculations. Financial transparency and stability are not mutually incompatible but are best served by different institutions with clearly defined objectives. Otherwise, the scope for cooking banks' books is just too large. Think of France's Crédit Lyonnais in the early 1990s.

The IASC Foundation's trustees need to do more to ensure the sustained success of IFRS. This might include finding a firmer voice in the public debate; recognising that IFRS will not be adopted immediately in the US and that a rushed approach serves nobody; and preparing for more direct representation of users, not only in the standard-setting process but also in formal governance arrangements.

*Nicolas Véron is a research fellow at Bruegel and author of Smoke & Mirrors, Inc.*