
**THE FUTURE OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
IN THE UNITED STATES: CONSIDERATIONS ON THE CRITICAL QUESTION**

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Abstract: In the present article a subject matter that has attracted great interest over the recent decades is discussed. The critical question of the likelihood of adopting the International Financial Reporting Standards in the United States has raised a lot of debates around the world. The problem has been the focus of long-lasting and profound deliberations among both scientific and professional community.

Our research found out that the strategic goal of reaching one single set of global accounting standards through the project of convergence developed by the most influential Boards in the world – the International Accounting Standards Board located in London with second headquarters in Tokyo, and the U.S. Financial Accounting Standards Board has not been achieved. It is appropriate to emphasize that the realisation of the convergence project began in 2002 as a result of the Norwalk agreement achieved in September 2002, Norwalk, Connecticut, USA. However, it is increasingly recognized that the era of convergence is coming to an end.

Prominent scholars argue that the strategic goal turned out to be neither practical nor achievable in the foreseeable future. For the time being the authorized American institutions do not intend to fully adopt the International Financial Reporting Standards as issued by the IASB into the U.S. financial reporting system. Moreover the authoritative organizations in the United States attempt to continue keeping in line with specifics of the U.S. business environment. It is assumed that the Securities and Exchange Commission will never perhaps risk causing a political storm by yielding the control on its accounting to an institution outside the USA.

An essential reason that causes inconveniences in the implementation of the IASB's accounting standards and the principles is that the accounting standards interact in different ways with national laws, social and ethic codes, domestic fiscal rules and guidelines, and that is unavoidable. However, in each state and jurisdiction the interaction has its essentials and specifics. Complications may arise out of the local tradition, culture and historical continuity in performing accounting as a practice as well as by the legal doctrine and the degree of their interrelation. No less important are the essence and peculiarities of the national legal and accounting system, the extent of cultural impacts on the contemporary development of accounting as well as the principles on the basis of which the systems of state authority are established, interact and function.

Keywords: International Accounting Standards, International Financial Reporting Standards, U.S. Generally Accepted Accounting Principles, International Accounting Standards Board, Financial Accounting Standards Board, Securities and Exchange Commission, convergence, endorsement approach, financial reporting;

1. INTRODUCTION

The International Accounting Standards (IAS) also known as the International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board's members throughout decades of hard effort have increasingly achieved worldwide acceptance. Nevertheless, it should be underlined that the United States of America, known as the state with the largest capital markets in the world, remains indifferent to the enthusiasm of other countries or at least not inspired by the idea of fully incorporating the International Accounting Standards into the U.S. financial reporting system, and that is symptomatic.

At prestigious global and international conferences and symposia, organized by the principal standard setters, it has been many times proclaimed that their strategic goal is to achieve one single set of high-quality globally accepted standards for financial reporting. In 2002, in Norwalk, the Memorandum of Understanding between the most influential boards setting standards – the IASB and the FASB, was endorsed. The Boards acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. The Norwalk agreement has been updated in 2006 and 2008. Nevertheless, the goal has always been to bring the two sets of standards closer. The joint project between the Boards has been repeatedly supported by leading groups such as the G-20 and their support was perceived as an essential step towards convergence, in principle. Another significant step in the United States was taken in November 2007. The SEC decided to cancel the requirement of adjusting the financial statements concerning foreign companies that use the international accounting standards. In other words, in 2007 the SEC began to allow foreign companies to report under IFRS without reconciliation according to U.S. GAAP. A year later the SEC floated the idea of adopting the IFRS as the primary financial reporting regime for U.S. companies. The financial

crisis that evolved in 2008 shocked the global economy. During the crisis the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) continued to work on different projects of convergence. It was evident that the interest of the United States in IFRS had significantly waned.

However, the critical question remains. What is the status quo after more than 15 years of joint work towards achieving greater progress in convergence? In 2012 the SEC, under Mary Schapiro's leadership, released the much-awaited report on IFRS, discussed further in the article. The report described the challenges of the possible complete adoption of IFRS in the United States rather than providing recommendations on the problem of whether international accounting standards should be used for domestic companies. For the time being, there is neither concrete indication nor solid evidence as to when the process of convergence between the International Financial Reporting Standards and the U.S. Generally Accepted Accounting Principles (U.S. GAAP) will come to pass, if ever. Mary Jo White, SEC Chair since 2013, as a robust proponent of convergence appointed James Schnurr as her chief accountant, who pointed out several times during his 18-month tenure that he was working on an IFRS rule proposal, but the effort went nowhere. In 2016 White issued a statement calling for her successor under the Trump administration to continue to pursue efforts towards further close alignment of U.S. GAAP and IFRS. "Although U.S. GAAP continue to serve well the interests of investors and other stakeholders, it does not diminish the need – in the United States and abroad – to continue to work hard to support the development of high-quality, globally accepted accounting standards", advised White. At the beginning of his tenure, White's successor Clayton focused on learning about all aspects of the SEC's work and seemed not to have made up his mind about IFRS. However, at a conference on SEC developments, hosted by the AICPA, Clayton indicated that there will be no movement on IFRS for U.S. public companies under his leadership.

In the Plan of the Securities and Exchange Commission (SEC) designed for fiscal years from 2014 to 2018 it is underlined that due to the increasingly globalizing nature of the capital markets, the organization will continue to take actions to promote higher quality financial reporting worldwide, in order to meet the investors' needs and among other things will consider whether a single set of high-quality global accounting standards is achievable.

The recent developments provide the impression that the combined projects of the IASB and FASB seem to be completed or are near completion. Therefore, the pursued convergence has not been achieved in reality. Most probably the complete switch to IFRS will never happen. Jay Clayton, the SEC Chairman, has announced that for him a consideration to require or allow U.S. public companies to apply IFRS "*is not a focus*". The evident lack of interest strongly contrasts with the high priority placed on IFRS by the former SEC Chair Mary Jo White.

2. THE SECURITIES AND EXCHANGE COMMISSION REMAINS RELUCTANT TO THE ADOPTION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS IN THE USA

During the debates focused on the essence of the major reasons for the economic crisis, opinions have arisen in Europe that the introduction of the Euro as well as the adoption of the International Financial Reporting Standards in the European Union and other countries have been encouraged by inspirational rhetoric and forecasts about gains that can arise from uniformity. Our viewpoint is that the process of unification nowadays is unavoidable because it is a prerequisite for achieving a meaningful communication between the economic agents by means of exchanging comparable information. For that reason it can be argued that the combined efforts towards uniformity are objectively necessary. On the other hand, however, it should be underlined that the introduction and application of a uniform process or procedure or rule in economies and societies, formed in the course of centuries under the influence of many various in nature factors (historical, legal, political, institutional, cultural, national and psychological, divergent factors of the natural environment and other dissimilarities and even contrasts) cannot generate equal or uniform results. There exists also the risk and probability for the effective supervision and control over the process of creating rules for global use to become impossible and not sufficiently balanced with so many contributors. It seems to be a little rashly to consider defeat. In the opinion of eminent lecturers and academics from the United Kingdom and the United States, however, the defeat stemming from non-recognition of risks (potentially existing dangers concealed behind uniformity) and the absence of risk management due to this and the strict adhering to samples and principles has driven the European Monetary Union to the brink of a critical abyss. Although these opinions and assessments seem to be a little extreme, they are far from being accidental, because first and foremost they evoke one association. Similar to the above, risks can be expected as a result of the long-term efforts of the International Accounting Standards Board (IASB), of the accountancy profession and some international regulatory institutions, the efforts of which are expected to lead to the adoption of IFRS for global use. It is admitted that the two boards, IASB, based in London, and U.S. FASB, ever since 2002 have been expending considerable resources trying to reach an agreement about common accounting standards. Regardless of the ongoing efforts, it is underlined that IFRS are not approved by the Commission (SEC) for complete adoption in the USA. It

is commonly assumed that the Commission will never perhaps risk triggering the political storm by yielding the control on its accounting to an institution outside the USA (non U.S. organization). “We can learn from the euro debacle and assess not only if the vision of one set of global accounting standards is achievable but also if it is desirable¹⁹.” Is the comparison relevant? Is the parallel appropriate? These are matters of contemplation. Finally it seems that reasoning gives way, a little, to sentiment. We must admit that our understanding of the essence of the existing problems and disadvantages stemming from IFRS and of the nature of the various reasons, which cause them, is quite similar.

3. COMPLICATIONS ARISING OUT OF THE ADOPTION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS WORLDWIDE: CONSIDERATIONS ON THE MATTER

The major reason for the inconveniences, in my view, is that the accounting standards in many and different ways interact with national laws, social and ethic codes, domestic fiscal rules and others, and this process is inevitable. In each state and jurisdiction the interaction has its specifics and characteristics. What increases the complications are the traditions and historical continuity in accountancy as a social practice, as well as the legal doctrine, jurisprudence and the degree of their interrelation, the nature and the peculiarities of the national legal and accounting system, the cultural and historical impacts as well as the principles on the basis of which the state and its systems are established, interact and function. What is also of importance is the hierarchy in the system of state and economic governance and its structure, the influence of national regulatory, supervisory and controlling institutions, the power of the accounting and auditing profession, the professional associations and organizations, the academic community, the maturity of the civil society, the combat with the financial and economic crime, corruption, morals, and others. Considering all this, we can find an explanation of the difficulties and obstacles on the way to the unified application of the prescribed common rules. It is another issue that in order to apply whatever accounting rule correctly, one must have a clear understanding of its essence and the conceptual idea which it is subjected to. Otherwise, the rule will be mechanically applied. This means that the effect produced as a result of the application of the idea, embodied in the rule, cannot stand out clearly and distinctly within the national context, so the effect cannot be assessed accurately due to the specific influences. In all this, however, we cannot see an argument for rejecting the necessity of global accounting rules, nor can the blame be “pinned” on the existing European standards (the IFRS as issued by the IASB and are adopted in the EU and elsewhere).

It is true that in its agenda IASB has discreetly and inconspicuously laid down that it is not to be held responsible for recurrent inadvertent and unexpected implications. This causes more heated attacks such as these that the “disaster” of some companies and banks should be attributed to the drastic decrease in their capital following payments of bonuses and dividends deducted from false, fictitious profits recognized under the prescriptions of IFRS due to “defective” valuations of financial instruments assessed using “unhealthy” measures on the market. The IFRS are criticized for containing scanty information and being too general as accounting rules for the extracting and mining activities (in contrast to the detailed regulations in the U.S. GAAP), for providing incomplete and inappropriate or imprecise and unclear key terms definitions (e.g. of an asset, a contingent liability etc.). Much older are the critical observations about the contradictions relating to the essence of the core accounting principles and assumptions, discussed in the Conceptual Framework for the preparation and presentation of financial statements. There are critical comments and interpretations of the available possibilities (always under suspicion) included in the IFRS probably under the influence of lobbyists’ interests – the prerequisite for excessive subjectivity in judgments and conclusions and thus allowing deliberately inflated or deflated values (amounts) in the financial statements depending on the target and the prevailing economic reality, e.g. possibilities for overstating or understating of the accounting valuations of depreciated, impaired, amortized assets or liabilities or components of equity etc. which can be overestimated or underestimated. It is appropriate to underline that any valuation is subject to a number of assumptions and judgments due to which differences are bound to occur. There are criticisms about prescribing and preference to some methods of calculating operating expenses and revenues and repealing of others; about the potential for diversion from the essence and covering up the nature of transactions and contracts (as the case may be with financial leases and operating leases), for fogging, obscuring or disguising of future events surrounded by uncertainties (as into the cases of judicial disputes, legal proceedings and others). There is criticism about the ambiguity in the disclosure criteria of contingent liabilities and contingent assets what in its turn can reflect on (affects) judgments concerning the probable recognition or non-recognition of such items in the financial statements, if certain conditions occur or not. A great disapproval exists due to something else as well – a lot of forecasts and

¹⁹ Fearnley, S. and Shyam Sunder James L. Frank. (2012). “Global Accounting Rules – An Unfeasible Aim”, *Financial Times*, June 4th.

approximate evaluations, probable, prospective fair values and discounted values in the balance sheet are stated in “artificial symbiosis” with the historical ones. The effect is creation and presentation of non-homogeneous information, on the one hand historical, based on data of events and transactions, reflecting the economic conditions of the past, and on the other hand a prognosticated one, influenced by the subjective expectations and outlook for the future. All this also reflects on the information contained in the income report (respectively the statement of comprehensive income) and the statement of changes in equity and leads to blurring, distortion and misrepresentation of the value of owner’s equity. The implications and troubles, however, do not stop here because this in its part means incorrect ratios and financial indicators, further analyses, based on unhealthy information and erroneous conclusions regarding the enterprise’s financial position, results and performance and thus may mislead both analysts and stakeholders (investors, creditors, hired people, society, state, tax authorities, and fiscals). Critical comments can also be targeted at other “deficits” of IFRS. More supporters among the academic community in Europe (France, the United Kingdom and other countries) uphold the thesis that the economic crisis has exposed weaknesses stemming from the fair value model of IFRS and the neglecting, disparaging and abandoning the conceptual idea of prudence.²⁰ In January 2009, Lord Turner, Chairman of the UK Financial Services Authority, was criticized for “illusory” profits provided or ensured through IFRS in a rising market where holding companies’ gains on securities held for trading are recorded as profits available for dividends and bonuses. There are other illusions – Lord Turner adds – a debt downgrade marked to market reduces the liability, thus producing another “illusory” profit. Irrespective of this IASB has vigorously defended its model in the name of global consistency and uniformity and the convergence with U.S. GAAP and attacked non-conformity. In 2008 Société Générale and their auditors were pilloried by current and former IASB members in the International Herald Tribune for “creative” accounting, because they “prudently” carried back the whole loss caused by their rogue trader to their December 2007 year end accounts. Doing away with prudence changed bank bad debt provisioning to an incurred loss loss model, thus limiting provisions when debt portfolios were growing in riskiness. IFRS are subjected to criticism for the tension between the historical value, determined on the historical costs, factual and retrospective in its nature, and the presumptive fair value, prospective and probable in nature, on the basis of which significant valuation models and rules (for initial and subsequent measurement and recognition of assets, liabilities and components of equity) are devised.

Despite the existing criticism, it would be fair to admit at least three things: IFRS contain original, rational and interesting solutions in terms of science and of practice primarily; second, IFRS have been conceived, developed and set as standards of the broad guidelines (rather than of the detailed rules), in their core there lies a general idea and presumptions embodied in the Conceptual Framework for Financial Reporting; and third, even the best rules would be ineffective when the morals in society are unhealthy or missing.

The financial world in Europe, America and elsewhere expected the decision of the USA, which Tweedie, the Chairman of the Institute of Chartered Accountants of Scotland since April 2012, defined as being of key priority for the future of the International accounting standards, not only because it would influence states with powerful economies such as Japan, China and India. According to Tweedie these states cannot adopt IFRS, if the USA does not accept them. Tweedie admitted that he is afraid of inconsistencies and fragmentation in the application of the International accounting standards, if the USA does not get on board. In January 2012 the Chairman of the Board Hans Hoogervorst in a speech in Moscow forecasted that the Commission (SEC) would probably adopt IFRS for U.S. issuers. Hoogervorst made it clear that both he and Leslie F. Seidman, Chairman of FASB, continue to sustain their consensus that the continuance of the current process of carrying out the convergence along separate projects is not an acceptable way for the future. IFRS pose very practical challenges to the Commission, Hoogervorst admits. This is not an easy decision to take, he adds. U.S. authorities have been working for many decades now and have already developed and designed a complex set of financial accounting standards. The apprehensions relating to the transition must be considered and assessed carefully. Hoogervorst acknowledges that these challenges are real, but his comments regarding the Commission in relation to IFRS and the decision expected remain optimistic. In August 2011 AICPA recommended the Commission that the U.S. public listed companies should be granted the opportunity of adopting and applying IFRS since the Commission was discussing a possible future framework for the incorporation of IFRS into the U.S. financial reporting system.²¹ Barry Melancon and Paul Stahlin stated that public companies in the United States should be allowed the option of adopting use of International Financial Reporting Standards as the SEC considered a possible future framework for incorporating IFRS into the U.S. financial

²⁰ Hines, T., V. Beattie, and Fearnley, S. (2009). “The Accounting Standards Debate: The Academics”, *Finance Director Europe*, 5th May.

²¹ William, R. (2011). AICPA Recommends SEC Allow Optional Adoption of IFRS by U.S. Public Companies, August 17th.

reporting system. “Whether or not the SEC decides to incorporate IFRS into the U.S. financial reporting system following an endorsement or a convergence approach, we believe U.S. issuers should be given the option to adopt IFRS as issued by the IASB,” Paul V. Stahlin, AICPA Chairman, and Barry C. Melancon, AICPA President and Chief Executive Director, stated in a letter dated August 17 to the SEC. The motives, the main arguments, propounded by Stahlin and Melancon were that an adoption option would provide a level of consistency in the treatment of U.S. companies and foreign private issuers that report under IFRS, which does not exist at that moment, and would facilitate the comparison of U.S. companies that opt for (elect) IFRS with their non-U.S. competitors that use IFRS. “Furthermore, giving U.S. companies an option to adopt IFRS as issued by the IASB would be another important step towards achieving the goal of incorporating IFRS into the U.S. financial reporting system. Anecdotal evidence suggests that the number of companies that would choose such an option would not be such that system-wide readiness would become an issue”, Stahlin and Melancon argued.²² The SEC final staff report ‘Work Plan for the Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers’²³, which was coming slowly and in vague and blurred outlines remained „wordless”, with no recommendation neither opinion as to whether, when and how the United States can begin the long-awaited transition to IFRS.

4. IDENTIFIED MAJOR SUBJECT MATTERS

1. The Development of the IFRS Globally

IFRS are generally perceived as high-quality standards. While both U.S. GAAP and IFRS contain areas that are underdeveloped, the perception among U.S. constituents is that the “gap” under IFRS is greater (e.g. the accounting for extractive industries, insurance and rate-regulated industries). Progress has been made as it relates to the FASB’s and IASB’s current convergence projects.

2. The Process of Interpretation

The IFRS Interpretations Committee should do more to address application issues on a timely basis to reduce diversity in practice in the application of IFRS. Although recent changes to the Committee’s process may address this concern, it is not yet known if the changes will be effective.

3. The IASB’s Use of National Standard Setters

The IASB acknowledges that it needs to understand different domestic reporting and regulatory frameworks and should consider relying more on national standard setters, e.g. on assistance in areas where they have expertise, outreach activities, identifying diversity in practice, and post-implementation reviews. The IASB is in the process of developing a plan to formalise its relationships with national standard setters as it contemplates its future agenda.

4. The Application and Enforcement Globally

Although the financial statements that the SEC staff analyses largely appeared to comply with IFRS, there is diversity in application of IFRS globally. Regulators in various jurisdictions would need to work cooperatively to foster consistent application and enforcement of IFRS.

5. The Governance Structure of the IASB

The governance structure of the IFRS Foundation “appears to strike a reasonable balance of providing oversight of the IASB while simultaneously recognising and supporting the IASB’s independence.” Mechanisms may be necessary to consider and protect the U.S. capital market, e.g. by allowing the FASB to endorse IFRS in the US.

6. The Status of Funding

While there has been progress in developing a funding mechanism for the IFRS Foundation, the staff expressed concern about existing funding sources, including the reliance on large accounting firms to provide funding. Currently the funding is provided by “businesses, not-for-profits, and governments in fewer than 30 countries.” The IFRS Foundation has been unsuccessful in raising sufficient funds for the U.S. portion of the budget.

²² In the letter the AICPA commends the SEC Staff for issuing the staff paper for public comment and offers its comments on Commission’s May 26th 2011 SEC Staff Paper, ‘Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers’. Discussing the objective of the endorsement approach it supports the goal of a single set of high quality, comprehensive financial reporting standards to be used by public companies. “We believe the standards issued by the IASB are best positioned to become those global standards. We, therefore, agreed with the objective outlined in the staff paper that a U.S. issuer compliant with U.S. GAAP should also be able to represent that it is compliant with IFRS as issued by the IASB” (Stahlin and Melancon, 2011).

²³ On July 13th, 2012 the SEC issued the final staff report ‘Work Plan for the Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers’ that marks the culmination of the work that the SEC directed to the staff to perform in relation to the work plan that the SEC initiated in February 2010. The purpose was to consider specific areas and factors that would be relevant to the SEC as to whether, when and how to incorporate IFRS into the U.S. financial reporting system. The SEC staff published a number of reports providing insights on the progress, observations and findings, pursuant to the work plan, summarizing observations and findings into one single document.

7. The Understanding of Investors

Investors do not have “uniform” education on accounting issues. Irrespective of any ultimate decision made by the SEC, the staff plans to further explore how investors’ engagement and education can be improved.

What may be the most interesting is not what the final staff report is, but rather what it isn’t. It does not include a recommendation nor does it provide a glimpse as to what the Commissions’ next steps may be in relation to IFRS. The report does indicate that it has not been approved or sanctioned by the SEC and does not necessarily reflect its views officially and that its publication “does not imply – and should not be construed to imply – that the Commission has made any policy decision as to whether IFRS should be incorporated into the financial reporting system for U.S. issuers, or how any such incorporation, if it were to occur, should be implemented.” The work plan also “did not set out to answer the fundamental question of whether transitioning to IFRS is in the best interests of the U.S. securities markets generally and U.S. investors specifically.”

5. THE VISION OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS REGARDING SECURITIES AND EXCHANGE COMMISSIONS’S EFFORTS TO REVIEW IFRS

In 2012 AICPA applauded the SEC staff for its robust efforts to review and analyse the IFRS and urged the Commissioners to consider the staff report with expediency because the world’s capital markets know no borders. “The participants in those markets need high quality, transparent, and comparable financial information to enable them to make sound investment decisions. The Institute also urged/recommended the Commissioners to allow U.S. public companies the option to adopt IFRS”, Melancon stated (Melancon, July 13th, 2012).²⁴

Commenting on the U.S. SEC’s report on incorporating IFRS into the financial reporting system for U.S. issuers, Stephen Haddrill, Chief Executive of the Financial Reporting Council (FRC) argued and admitted: “We have all followed the SEC’s work on determining whether, when and how to move to a system incorporating International Financial Reporting Standards for a long time. It is disappointing that transition is not yet clearly recommended. It is imperative that this is not allowed to affect the continued development global standards of high quality. Now that the era of convergence is coming to an end we urge IASB to make the highest quality of the standards its principal objective” (Haddrill’s Statement on the U.S. SEC report on IFRS, July 16th, 2012).

With respect to the publication, Michel Prada, the Chairman of the IFRS Foundation trustees, expresses the view as follows: “The report reiterates the many challenges that a large economy such as the United States faces when transitioning to IFRS – challenges that other jurisdictions have successfully overcome when completing their own transition to IFRS.”²⁵ Prada considered that United States was well-placed to achieve a successful transition. “While acknowledging the challenges, the analysis conducted by the IFRS Foundation staff shows that there are no insurmountable obstacles for adoption of IFRS by the United States”.

The Trustees replied that they intended to carefully study the report in detail and take further steps as necessary. The initial assessment was that many of the findings are broadly consistent with the conclusions of the Monitoring Board and Trustees’ respective Governance and Strategy Reviews completed earlier in 2012, and already addressed in the work plan for the year.

While recognising the right of the SEC to determine the method and timing for incorporation of IFRS in the United States, the Trustees expressed regret that the staff report was not accompanied by a recommended action plan for the SEC. Given the achievements of the convergence programme inspired by repeated calls of the G-20 for global accounting standards, a clear action plan would be welcome. For the benefit of both U.S. and international stakeholders, the Trustees look forward to the SEC resolving the continued uncertainty regarding the US’s commitment to global accounting standards.²⁶

Hoogervorst, the IASB Chairman, indicated that IFRS have already achieved critical mass as international standards and with more than two thirds of the G-20 now on board, the momentum behind them becoming global accounting standards is irreversible. We are confident in our mission to achieve a single set of high quality global accounting standards and we continue to work to serve investors and other users of IFRS across the world”, Hoogervorst claimed. “We are at a pivotal moment for our organisation. The IASB has started working on a new agenda. The era of convergence is coming to an end. We are revamping our institutional infrastructure to provide for a more inclusive approach to international standard setting. This is the right timing to come on board and participate in shaping the future of global accounting.”²⁷

²⁴ AICPA Applauds SEC’s Effort to Review IFRS Urges SEC to Act, July 13th, 2012, available at <http://www.aicpa.org>

²⁵ Response to US SEC publication of staff report on IFRS, July 15th, 2012, available at the website of the IFRS Foundation and the IASB: <http://www.ifrs.org>

²⁶ Ibidem.

²⁷ Ibidem.

In August 11th, 2012, the Chartered Financial Analysts Institute published a brief summary of issues arising from the staff report of the United States Securities and Exchange Commission on the possible incorporation of IFRS into the U.S. financial reporting system. The summary provides a critique against the report, pointing out a number of areas where the CFA Institute believes more analysis and evaluation is required. The report, entitled “Does the SEC have the will to find a way towards IFRS?”²⁸, resumed that the final report is comprehensive and organized around a number of key themes, such as the costs and obstacles issuers would face in making a change from U.S. GAAP to IFRS and the degree to which existing U.S. GAAP is entrenched in U.S. regulatory regimes.

However, the report opines that “observations on investor preparedness, regulatory impact, issuer impacts, and human capital readiness offer commentary on the current state of affairs which, in our view, will evolve once a decision to adopt IFRS is made”.²⁹ The report later concludes that in the CFA Institute's view “readers of the Final Report are left with data and observations but without an indication of how they will be weighed and evaluated”.³⁰ The report laments the lack of analysis of whether IFRS is 'so sufficiently flawed' as not to be of interest to investors, what exact modifications to IFRS would be needed to incorporate it into the U.S. reporting regime, and whether issues of lack of comparability in IFRS is a greater obstacle than exists with multiple accounting languages. The report outlines a number of analytical or evaluative issues that the SEC staff report does not answer, such as: which of the dimensions of the SEC IFRS Work Plan are most critical to a recommendation; which, if any, of the challenges are considered to be insurmountable and why; what, if any, actions can or should be taken (and by whom) to address the challenges or obstacles, and over what time period; to what degree should ‘regulatory capture’ of U.S. GAAP serve as an obstacle or deterrent to adopting accounting standards, which are meant to serve investors rather than regulators etc. The observation the report concludes with is that: Requiring most immediate attention, the Final Report leaves stakeholders wondering: What will the SEC’s next steps be? Will there be a recommendation and what might be its timing? “We believe it is imperative for the SEC to define the way forward, as failure to act or provide clear direction is, in substance, a decision not to incorporate IFRS. Rather than continued evaluation and delay, we believe investors would prefer the SEC to provide a path forward with an affirmative or negative decision.”³¹

In October 2012 the IFRS Foundation released a thorough response to the SEC’s exhaustive report on IFRS, providing its own analysis. The SEC’s report outlined and expressed concerns, some of which focused on the process of funding of the International Accounting Standards Board (IASB), on the issue of the timeliness of responses to widespread accounting problems by the IFRS Interpretations Committee and others. The SEC staff raised anxieties about the IFRS Foundation’s reliance on funding from the large public accounting firms, and argued that fewer than 30 nations contribute to financing of the IFRS Foundation. In addition, the SEC contended, that the IFRS Foundation’s Trustees had been unsuccessful obtaining the funding for the portion of the foundation’s budget allocated to the United States. The SEC also said U.S. sources are providing “in-kind” funding such as the FASB staff efforts on U.S. GAAP-IFRS convergence projects.

The IFRS Foundation maintains that some of those problems are being addressed in current initiatives. The IFRS Foundation also contested the SEC’s arguments on funding, saying the United States’ contributions are lacking in proportion to the size of its economy and its number of representatives in IFRS Foundation bodies. What’s unclear is whether the IFRS Foundation report will make a difference in the SEC’s ultimate decision on whether to allow or mandate that U.S. public companies use IFRS for their financial reporting.

The report comes a day after AICPA President and CEO Barry Melancon, during a speech to the AICPA Governing Council, warned that the United States could face consequences for not pushing steadily forward on convergence and adopting IFRS. The issue of IFRS adoption in the United States remains in the hands of SEC commissioners with no known timetable in an uncertain political landscape.

The IFRS Foundation in its report responded:

- The SEC analysis overlooked the fact that the biggest contributor to the budget of IFRS Foundation is the European Commission, which represents 27 member states. When royalty payments and some voluntary funding arrangements are considered, 69 countries provide financial support for the IFRS Foundation.
- FASB’s work should not be factored into the U.S. contribution because the convergence program is a joint process with efforts, resources, and benefits shared by FASB and the IASB.

²⁸ CFA Institute Issue Brief: Final SEC Report on 2010 IFRS Incorporation Work Plan Does the SEC Have the Will to Find a Way towards IFRS?, available at www.cfainstitute.org/ethics

²⁹ Ibidem.

³⁰ Ibidem.

³¹ Ibidem.

- The lack of a publicly sponsored funding arrangement in the United States means that it is not contributing a proportionate amount to the IFRS Foundation’s budget. A proportionate U.S. contribution based on GDP would amount to just over £4 million (\$6.4 million) in 2012, while £1.3 million (\$2.1 million) is expected to be collected.

- While 20% to 25% of the seats on the IFRS Foundation’s bodies are held by U.S. representatives, U.S. contributions make up less than 10% of the total country contributions to the Foundation’s budget.

“Ultimately the lack of public funding in the U.S. can only be resolved by the U.S. authorities themselves, directly or indirectly,” the IFRS Foundation staff wrote. Funding may be the biggest obstacle for IFRS adoption for U.S. public companies, because of the fact that the SEC cannot act as a fundraiser for a private organization, and payment to the IASB could be viewed as a foreign subsidy. It is essential to emphasize as well that the IFRS Foundation also pointed out:

- The IFRS Interpretations Committee has implemented changes that will make it more effective; however the SEC had expressed concerns about the committee’s failure to address issues on a timely basis.

- The IASB has begun preparatory work to establish an Accounting Standards Forum comprising national standard setters and other regional bodies to provide feedback. The SEC had recommended that the IASB should extend its involvement with national standard setters.

Costs of transition to IFRS for U.S. preparers should be reduced it may be expected, compared to other countries because the activities on the convergence programme have reduced differences in standards.

The IFRS Foundation report included an appendix describing a review of academic research on the benefits of IFRS adoption, noting that the SEC staff report did not analyze the benefits of IFRS in the United States. The reason is that those benefits could not simply be projected onto the United States because it already has high-quality accounting standards that are understood globally. Nonetheless, it is pointed in the report that, in many ways, the United States is better prepared than other jurisdictions to consider the adoption of IFRS.

“While the size of the U.S. economy relative to other jurisdictions presents significant challenges in transition that are unique to the U.S.,” the report assumed, “the experience of other countries suggests that many of the challenges can be overcome with the appropriate political will to make a commitment to the mission of a single set of global standards.”³²

In the debate on the adoption of IFRS in the United States Professor Jermakowicz has predicted that the SEC eventually will require U.S. public companies to use IFRS to file their financial statements. “The US has to mandate IFRS because the US would become isolated internationally [without it],” Jermakowicz believed and argued into that. “... The US could not remain out of a global system forever.”³³ Inside, Robert Herz took a look at how Canada met the challenges when it adopted IFRS. He assumed discussing the problem that the experiences of U.S. neighbor to the north could provide valuable insights into a potential path forward.³⁴

6. WHAT IS THE ESSENCE OF THE PROBLEM OR THE PROBLEMS

1. Nonexistence of Political Willingness: Probably the Dominant Factor

A well-reasoned opinion exists prevailing over other perspectives. The insight is that the difficulties primarily arise out of politics. Over the recent decades it became obvious that there is vigorous unwillingness to give up the standard-setting authority regarding the U.S. GAAP over domestic issuers to an international body. It seems as though SEC perceives IFRS as standards lacking in consistent application, as standards leaving too much leeway for subjective judgements and interpretations and as underdeveloped in many areas in comparison to the U.S. GAAP that contain detailed and accepted guidance as well as established practices to protect the US investors. Furthermore, SEC stated that investors do not believe in compromising the high quality standards of accounting for the sake of uniformity. Judging by that statement itself, it seems as though the political will is lacking on the side of SEC and FASB to truly find a way to converge the IFRS and GAAP. SEC has time and expressed the view that a single set of international accounting standards should be developed and accepted by everybody. In fact, in the SEC’s Strategic Plan for fiscal years from 2014 to 2018 it was declared that “SEC will continue to promote the establishment of high quality accounting standards to meet the needs of the investors.”

2. Concern Due to the Possible Loss of Control

It seems as though the ultimate concern is about the loss of control. It can be supposed that the prospect of giving up the control over the standard setting process and standards in the United States, which to be enforced within their country, must be perceived as daunting. The comments received and put forth by the SEC staff reveal that it is

³² Tysiac, K. (2012). IFRS Foundation report says SEC’s concerns can be overcome, *Journal of Accountancy*, October 23rd.

³³ Jermakowicz, Eva K. Statement of Eva K. Jermakowicz on IFRS adoption in the U.S.

³⁴ Robert, H. (2012). “For an Example of a Successful Transition to IFRS, Look North”, *Compliance Week*, October 30th.

important for the U.S that FASB retain a role in the standard setting process so that U.S interests are taken into account (IFRS Staff, 2012).

As stated in the SEC report “In order to fulfil the SEC’s mission of protecting investors, maintaining fair, orderly and efficient capital markets, and facilitating capital formation in the United States, the staff believes it will be important for the United States to continue to have an active role in the international accounting arena to assist in the development and promotion of high-quality, globally accepted accounting standards; to be proactive in identifying new and emerging financial reporting issues; and to ensure that U.S interests are suitably addressed in the development of those standards” they go on further to say “ (pp. 84-85) ... *the IASB may be incentivized to take U.S. perspectives into greater consideration during the standard-drafting process – resulting in standards that meet the needs of U.S. constituents without the need for modification during an endorsement process, thus decreasing the likelihood of differences*” (IFRS Staff, 2012). In the light of these statements it can be supposed that the US, known for their dominance in the arena of the world markets, is afraid of losing their voice in the process of setting and enforcement of accounting standards.

Another concern raised by the SEC staff regards the matter of IASB’s independence with regard to the problem of how the Board receives funding and how interacts with national standard setters. The major concern stated by the SEC is that the majority of the funding received by the IASB is from the large accounting firms (IFRS Staff, 2012). It is requested by the Financial Accounting Foundation (FAF) that the IASB should introduce methods of stable funding and staffing levels so as to remain an independent high quality standard setter (Deegan, 2014). In the SEC report to the IFRS Foundation it is stated that only 69 countries contribute funding, which equates to only 58% of the total countries that have adopted these global standards. They also state continued reliance on funding from the largest accounting firms will continue to cause concerns about the adequacy and independence of the IASB’s funding model” (IFRS Staff, 2012). Apart from the concerns around funding, there is also the issue of the relationship between the IASB and the EU. When in 2002 the EU agreed to have all companies comply with IFRS they established a process whereby each new IFRS would need to be separately endorsed by the EU before becoming mandatory (Deegan, 2014). This leads to the question of enforceability, if each country that adopts IFRS starts to only adopt those they endorse. The SEC did note in its report that it is important for the IASB to achieve a greater and more consistent enforcement and that the IASB needs to ensure that they are creating standards that themselves lend to enforcement. Scott A. Taub (U.S. citizen), who has served six years as a member of the IFRIC, believes that the major concern for adopting IFRS by the US is the relationship between the IASB and the European union (EU), somewhat warranted as the EU is the largest user of IFRS and the best way this relationship to change would be for the US to adopt IFRS, which would give IASB another large constituent base (Taub, 2014).

3. *The Priorities of the U.S. Financial Accounting Standards Board*

The FASB continues to work solitary on many “not-converged” issues, i.e., not on the basis of joint projects or consultations with the IASB, and regularly releases new technical guidance that sometimes diverges from IFRS. The topics of the completed projects on the FASB website, for example, in July and August of 2015, reveal that almost all of them address relatively narrow, specific issues and the corresponding changes were not introduced by the IASB.³⁵ Moreover, even the common technical projects, officially regarded as “convergence projects” yielded or are expected to yield diverging guidance. Examples are the recently reached by the Boards different decisions on clarifications and interpretative guidance to their respective revenue recognition standards, the detailed accounting rules resulting from leases, the projects regarding the issue of the financial instruments – credit losses. The parallel insurance projects have also not led to convergence in that important area of reporting.

Additionally, the Financial Accounting Standards Board, the Financial Accounting Foundation (FAF) and the Governmental Accounting Standards Board (GASB) have developed (in 2015) a Strategic Plan to articulate the long-range vision, mission and strategic goals of each of the groups and the organization collectively. The plan represents an evolution and a refinement of previous plans and mission statements developed by the groups. The strategic plan of the FASB, the FAF and the GASB establishes four strategic goals to help us fulfill our collective mission: practicing and promoting continued excellence in standard setting; demonstrating a commitment to leadership in standard setting; building and maintaining trust with stakeholders; promoting public discourse on

³⁵ U.S. GAAP standards exist, none of which has an IFRS equivalent as for example: Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets; Employee Benefit Plan Simplifications; Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent); and Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions. New, however small technical differences along with the “old” ones and those not eliminated in the course of the convergence projects, such as the goodwill calculation options, for example, keep building and expanding a body of diverging technical guidance, which clearly does not facilitate the process of convergence or harmonization of U.S. GAAP and IFRS from a technical standpoint.

current and future financial reporting issues; It is indicated in the Document that: “The FASB also will participate actively in the development of IFRS, providing input on projects of the International Accounting Standards Board (IASB) through the IASB’s Accounting Standards Advisory Forum and through other means. The FASB will contribute to the development of IFRS by sharing views based on its past experience or developed through the FASB’s due process, stakeholder outreach, analysis, and deliberations. The FASB believes that its efforts to improve GAAP benefit from the international perspectives gained through its interactions with the IASB.”

4. The Specifics of the Business Environment in the United States

The business environment in the US has a highly litigious profile. Accountants and auditors are frequently blamed before anybody else even sued, alone or along with the company’s executives, for problems concerning investor or creditor that are even tangentially related to reporting, regardless of whether a fault of an accountant, fraudulent practices of the management or anything else is identified. Such economic environment predetermines “high professional liability” for both accountants and auditors. It is comprehensible and justifiable accountants to demand a highly elaborate set of very specific rules rather than “general principles” that “merely” declare neutrality and faithful representation, leaving a lot to the discretion and judgment of preparers. Undoubtedly, the professional judgment is necessary and even critical for a high-quality reporting process, it should be admitted that in the economic reality, opinions and ranges of estimates are differing to an extent of being even conflicting, and in addition to the leeway of maneuver may serve other interests. Therefore the FASB will keep generating very specific reporting rules, which, unlike IFRS, address narrow reporting issues and business situations, thus creating potentially more and more differences with IFRS. It looks like the conflict between the “principles” of IFRS and the “rules” of U.S. GAAP as perceived by many, not very fairly, is far from over yet.

5. Specific Concerns by Specific Industries

IFRS are less voluminous than U.S. GAAP in part because they contain little industry-specific guidance. Many commentators had certain concerns about how IFRS would impact their particular industry. For example, specific concerns were raised about provisions of IAS 41 Agriculture, guidance for regulated industries, and the need for completion of the joint project on the accounting for insurance contracts. Companies that use LIFO (last in-first out inventory accounting method) were concerned about the elimination of LIFO that would be required on a move to IFRS. Acceleration of income taxes would be substantial for many companies on such a move.

6. Concern that Benefits of Adoption Do Not Outweigh Costs

The most common criticisms of the roadmap are focused on the potential cost of adoption and the belief that a more measured convergence process was the best option. The financial crisis was often alluded to as a deterrent to mandating adoption soon. More than a few commentators mentioned that in the U. S. economy it is not the time to increase the cost of doing business and the concern that benefits of adoption do not outweigh costs.

7. CONCLUSION

A long time ago professionals expected the Securities and Exchange Commission to publish a rule that would allow or force U.S. public companies to use International Financial Reporting Standards. Had the anticipated move come about the U.S. Generally Accepted Accounting Principles would have been abandoned.

The IFRS adoption in the US would mean that the U.S. accountants would have to learn a new language as would many of the accountants at the foreign subsidiaries. As regards the educators and students, they will have to be acquainted with four bases of financial reporting: U.S. GAAP, U.S. GAAP for non-public companies, IFRS and IFRS for SMEs, and these bases do not include all of the fiscal rules that must be learned.

However, for the time being, the expected switch never happened. Nowadays, Jay Clayton, the SEC Chairman, has announced that a consideration to require or allow U.S. public companies to use IFRS is “*not a focus*” for him. Such lack of interest contrasts with the “high priority” of the former Chair Mary Jo White. It seems as though the Securities and Exchange Commission and the Financial Accounting Standards Board have been hesitant to relinquish control over the accounting rules and adopt more principles-based approach and system of rules under IFRS compared to the existing U.S. GAAP.

The picture is saturated with eclecticism or heterogeneity. Heterogeneity, that arises out of the clash between traditions and influences (historical, juridical, political, institutional, cultural etc.), among concepts, approaches and methods, motives and arguments, forecasts and estimates of potentially existing risks and potential benefits.

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