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Why does the U.S. Continue to Use GAAP and Will it Ever Converge to IFRS?

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WHY DOES THE US CONTINUE TO USE GAAP AND WILL IT EVER CONVERGE TO IFRS?

SUBMITTED TO

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I. Introduction

With increasing globalization in not only the business world, but also the world in general, a major concern of the business world is how a company can increase its global influence. For many United States companies, globalization has not only increased the opportunities for business transactions, but also the opportunities for capital from foreign investors. With increasing technology available, investors are able to obtain information regarding investment much more quickly than they were able to in the past. As a result, cross- border listings have increased and investors are able to make international investments. Therefore, it is imperative that investors are able to have a set of financial standards that are understandable and comparable so that they can make the most well informed decisions.

As of July 2014, there are 141 states[1] that have adopted International Financial Reporting Standards ("IFRS") either completely or in part. In addition to the United States, Japan, India, Russia, Malaysia, and Colombia are all considering the potential implementation of IFRS (PricewaterhouseCoopers [PwC] 2014b). The United States, as the largest economy and the largest public equity model, has significant influence to the success of international accounting standards. If the U.S. adopted IFRS, more countries, such as Japan (Hail, Leuz, & Wysocki, 2010, p. 357), would be more willing to adopt IFRS as well. Like the decision of the European Union to adopt IFRS encouraged more countries to implement IFRS, adoption by the U.S. will largely benefit the International

[1] The listing of 141 states includes the Special Administrative Regions of Hong Kong and Macau as well as the West Bank/ Gaza region (which is technically under Palestinian rule and is not its own country). Additionally, the Isle of Man, a self-governing dependency of the British Crown, is also considered its own state.

Accounting Standards Board ("IASB"). As a result, determining why the U.S. has not yet become an IFRS member country is important in determining the long- term success of IFRS.

Nearly fifteen years after the IASB reformed the International Accounting Standards ("IAS") to become the IFRS and the U.S. expressed support for international accounting standards, the U.S. has still not yet adopted said standards. One reason for this is the claim that the U.S. Generally Accepted Accounting Principles ("GAAP") are superior to the existing international standards because of their stringent rules- based nature (e.g. Zarb 2006, Barth et al. 2007). However, even if the quality of standards under IFRS was greater than those under U.S. GAAP, the U.S. would still be rather unwilling to completely implement IFRS because of the significant costs and obstacles towards convergence. I argue that the biggest barrier to convergence is the costs associated with the implementation of IFRS.

A few terms associated with the implementation of IFRS are adoption, convergence, harmonization, and standardization. Some considerations we must acknowledge are the differences in terminology. Harmonization and standardization are essentially the same thing, but as, harmonization implies that differences may remain while standardization appears to be more narrow and rigid (Nobes & Parker, 2012, p. 82). An example of standardization is the U.S. GAAP. IFRS is considered much more flexible than U.S. GAAP, and it is becoming increasingly so. U.S. GAAP, on the other hand, is more rigid and focuses heavily on rules- based regulation. By definition, harmonization is the process of increasing the compatibility of accounting practices by setting bounds to their degree of variation and is considered transnational legislation emanating from the EU. Convergence, similarly, appears to be the coming together of all the nations with a single accounting standard globally. Adoption means that the country will no longer follow the practices that they have set and will instead use IFRS. The European Union, which will be detailed further later in this paper, is an example of an organization which has harmonized with IFRS. In the 2011 Strategy Review of the IASB Board of Trustees, they stated that, "Adoption is the only way to achieve a single set of global financial reporting standards - an objective that both the International Accounting Standards Board ("IASB") and Financial Accounting Standards Board ("FASB") have publicly endorsed on many occasions" (Pacter 2013). Though the IASB wants the U.S. to adopt IFRS, it is unlikely that they will as it tends to be much more costly than convergence. As harmonization and convergence are essentially synonymous when referring to IFRS use in the U.S., they will be used interchangeably in the discussion of U.S. implementation of IFRS for reasons that it will essentially have the same result.

II. A Brief History of International Convergence Efforts

The path to international convergence began with the end of World War II, primarily resulting as a result of the division of Germany that caused countries to have multiple, vastly differing accounting standards within their scope of influence. Multinational entities ("MNEs") wanted to have a more standardized financial reporting system throughout the world, and the end of the Second World War demonstrated a need for significant reform of accounting standards and the implementation of international standards. Over time, groups created more effective and more active international accounting entities to assist in the path to globalizing accounting. Convergence efforts have resulted in much more harmonized global standards. Despite making significant progress towards comparability among different countries, there is still a long way to go until convergence is fully present.

A. Convergence in the United States

The United States has claimed to be working towards developing a single set of high quality, useful financial statements for all of its investors. Throughout its history, its standard setters (first the Accounting Principles Board and the Committee on Accounting Procedure, then the FASB) have attempted to protect the investor and other users of the financial statement, rather than the corporate preparers. As such, it has developed and expanded its own set of standards in line with its people's needs instead of converging with international standards that attempt to meet the needs of all parties globally. The United States has made strides towards the comparability of its firms' financial statements and has historically been one of the leaders in not only setting accounting standards, but also working towards harmonization of global accounting standards. As one of the main proponents of a set of high quality international standards, the U.S. has been a major leader in the success of international standards. Despite not yet adopting the standards itself, the U.S. continues to support and assist the International Accounting Standards Board ("IASB") in the quality and proliferation of IFRS.

1. The 1960s: Desire for International Standards and Initial Steps

Since the early 1960s, the global financial leaders have been working towards convergence with international accounting standards. Because of the increased economic integration and cross- border capital flows post- World War II, interest in international accounting began to grow. In September of 1962, the American Institute of Certified Public Accountants ("AICPA") hosted the Eighth International Congress of Accountants, where much of the discussion focused on the world economy in regards to accounting. Many attendees believed that steps should be taken to encourage development of auditing, accounting, and reporting standards at an international level (Zeff, 2012, p. 808-809). At this conference, the consensus of a need for a single set of international accounting standards was a major turning point in the conversation for the need of conformance.

In 1964, the AICPA International Relations Committee, along with the Big Eight Accounting firms published *Professional Accounting in 25 Countries,* which was the first book of its kind to survey accounting, auditing, and financial reporting globally (Camfferman & Zeff, 2007, p. 25). Not only were the accountants at the International Congress of Accountants interested in international accounting standards, but investors, MNEs, and financing and lending institutions as well. As a result of the publication of *Professional Accounting in 25 Countries,* academia in the United States began to focus more on international accounting as well as the inclusion of international business classes at many institutes of higher learning (Camfferman & Zeff, 2007, p. 26). In 1967, Professor G.G. Mueller published *International Accounting,* emphasizing international accounting's growing prominence in the academic sphere (Financial Accounting Standards Board [FASB] 2013). With the publication of the first international accounting textbook and the first publication from the accounting firms, it was generally accepted that international accounting was becoming an important topic to be studied.

The biggest step in international accounting during this period was the formation of the Accountants International Study Group ("AISG") in 1966 (FASB 2013). This was formed with members of the AICPA, as well members of its counterparts in the United

Kingdom and Canada: the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants of Scotland, the Institute of Chartered Accounts in Ireland, and the Canadian Institute of Chartered Accountants (Massoud, 2009, p. 8-9). The primary purpose of the AISG was to study and report on accounting practices and the differences in practice in these three countries. During the ten years that it was active, twenty studies were published, many of which focused on financial reporting matters with some conclusions on best practices (Nobes & Parker, 2012, p. 95).

2. The 1970s and 1980s: Creation of the IASC and Steps Toward Convergence

In 1973, the FASB "was launched amid general optimism and enthusiasm" with the purpose of being a rule- making body financed and operated entirely in the private sector whose laws would be backed by federal law and a federal regulatory authority (Tucker 2003). The Accounting Principles Board ("APB") was seen as the immediate predecessor of the FASB. Because the APB was strongly criticized for failing to concentrate on the fundamentals of accounting, the FASB was seen as a possible solution to the increased criticism. In addition to the FASB, the Financial Accounting Foundation ("FAF") and the Financial Accounting Standards Advisory Council ("FASAC") were created as a structure to solve the problems arising from the APB. The mission of the FASB is to "establish and improve standards of financial accounting and reporting that foster financial reporting b nongovernmental entities that provides decision- useful information to investors and other users of financial reports" (FASB 2014b). In 1978, with recommendation from the Foundation Trustees, the FASB meetings were opened to the public, which increased the operations' efficiency (Tucker, 2003, p. 1027).

The AISG was a predecessor group for the International Accounting Standards Committee ("IASC"), which was also established in 1973. The IASC combined members of the AISG with accounting professionals from Australia, France, Japan, Mexico, the Netherlands, and West Germany. According to Mason, harmonization of international accounting standards requires six countries: France, Germany, Japan, the Netherlands, the United Kingdom, and the United States, all of whom were among the IASC's founding members (Mason, 1978, Ch. 6). He believed that because these six countries had strong accountancy professions and standard- setting experience, they would be crucial supporters and contributors to international accounting standards. The primary mission of the IASC was "to formulate and publish basic standards to be observed in the presentation of audited accounts and financial statements and to promote their worldwide acceptance" (Camfferman & Zeff, 2007, p. 51). Between its inception and 1987 when they decided the published standards were essentially rewritten versions of existing standards, the IASC published 31 exposure drafts and 2 discussion questions that later became International Accounting Standards ("IASs"). In 1987, they decided to focus their efforts on a project to increase comparability and reduce the amount of standards that allowed alternatives in reporting. They also focused on making the standards more prescriptive than descriptive so that users and preparers of financial statements have more useful information without fraud (FASB 2013). However, the IASC was rather ineffective and never gained international prominence due in part to the fact that it was comprised of accountants with essentially no governmental endorsement and no preexisting financial bodies. Additionally, the FASB, one of the primary founders of the IASC, did not even mention the IASC's work in its annual reports until 1985.

Nevertheless, they were successful in completing and publishing 41 IASs by their reorganization in 2002 (Camfferman & Zeff, 2007, 820- 821).

Another important step in the development of international accounting was the founding of the International Federation of Accountants, which was formed in 1977 at the eleventh International World Congress of Accountants. They were developed with the goal of

- "Developing high quality international standards in auditing and assurance, public sector accounting, ethics, and education for professional accountants and supporting their adoption and use;
- facilitating collaboration and cooperation among its member bodies;
- collaborating and cooperating with other international organizations;
- and serving as the international spokesperson for the accountancy profession" (IFAC 2013).

As of their main goals is to develop statements that serve as guidelines for international and auditing standards and to assist other boards with the same mission of developing international standards, they were crucial in offering assistance to the IASC.

The second most significant step towards harmonization of international standards in the 1970s was the formation of the FASB task force in 1979 that included representatives from various international accounting entities, including the UK Accounting Standards Board, the Accounting Standards Board of Canada, and the IASC (FASB 2013). Though this task force focused solely on the revision of the FASB's standard on foreign currency, this was the FASB's first task force that included representatives from international standard setters. This was pivotal in the effort towards the United States' path towards international convergence of accounting standards.

In 1983, the International Organization of Securities Commissions ("IOSCO") was founded as an international association of governmental security regulators. Like the Securities and Exchange Commission ("SEC") in the United States at a global level, it acts as a regulator in the sale of securities. It is also recognized as the "global standard setter for the securities sector" and develops, implements and promotes following international standards for securities regulation (Nobes & Parker, 2012, p. 96). Their enforcement role at the international accounting standard level extends to the IFRS's interpretation through the maintenance of a confidential database of enforcement actions taken by member agencies that the IOSCO has with IFRS (Deloitte 2014a). The IOSCO is significant in its role of internationalizing accounting standards because it is one of the first global groups with success in regulation of financial instruments crucial to financial reporting.

Despite not formally acknowledging the IASC's work until 1985, the United States renewed efforts to work with the IASC in 1988 and not only joined an IASC consultative group, but also expressed its support for internationalization of accounting standards. The AICPA, the US member of the IASC, coordinated all US involvement with the IASC until the FASB became of member of the IASC Consultative Group in 1988. The Consultative Group was charged with providing the IASC with input on technical as well as other issues and were also allowed to send a FASB representative to IASC meetings where they also had power to participate (Camfferman & Zeff, 2007, p.419). Furthermore, the FASB decided in 1988 that the need for international standards was "strong enough to warrant more focused activity on its part" (FASB 2013). The FASB may have joined the IASC as a response to this growing desire for international standards as a result of the worldwide interest in international accounting standards to facilitate cross- border capitalism.

3. The 1990s: Formalization and Expansion of International Scope

In 1991, the FASB issued its first formal strategic plan towards converging with international accounting standards. The Board concluded that complete internationalizing was unrealistic in the short term and instead focused on the ultimate goal of convergence through a near- term strategic goal of "making the financial statements more useful by increasing the international comparability of accounting standards while improving their quality" (FASB 2013). This Strategic Plan also resulted in a revision of the FASB's mission statement so that it incorporated its objective of promoting the international comparability of accounting statements while simultaneously improving the quality of financial reporting (Herz & Petrone, 2005, p. 632- 633). One of the most important premises in the 1991 Strategic Plan was that the Board would adhere to its full due process and its conceptual framework during the process of internationalization. This desire to resist pressure towards internationalization if it were only at the sake of the "lowest common denominator" between the two is significant because it signified the FASB's commitment to its investors' protection instead of blindly converging with international accounting standards (Herz & Petrone, 2005, 633). Nevertheless, the plan's outline towards attaining the goal of internationalization resulted in several specific efforts toward achieving the goal of harmonization and was pivotal in the movement towards more consistency. The revision in 1995 was further proof of its relevance, and its incorporation into the 1996 Strategic Plan's key objectives further showed the FASB's willingness to incorporate more international accounting standards (Herz & Petrone, 2005, p. 634).

By 1993, a need for a group similar to the AISG was perceived, and the G4+1 was thus formed with standard- setters from Australia, Canada, the United Kingdom, and the United States, as well as the IASC secretariat as an observer (FASB 2013). New Zealand later joined[2]. The main purpose of the G4+1 was to research and propose solutions to common accounting and reporting issues; because the members of the G4+1 shared similar conceptual frameworks, the efforts of the standard setters was much more coordinated and the work was much quicker than the efforts of the IASC (Nobes & Parker, 2012, p. 95). There is much debate on the importance of their work, but it is indubitable that their existence at the global level brought prominence to the need for a group to research international accounting standards. A year later, the FASB and the IASC worked together on improving their standards on earnings per share with the objective of eliminating differences between the two standards, which was their first collaborative effort in setting standards (FASB 2013).

In 1996, the IASC and the IOSCO published the National Securities Markets Improvement Act in a response to the decision that the two entities would determine what constituted a comprehensive set of core values. They further ascertained that should the IOSCO agree that these core standards were acceptable, would accept them into their

[2] The G4+1 is referred to as the G4 because of the four countries that initially joined the group, with the 1 referring to the observing secretary, despite the later admittance of New Zealand (Nobes & Parker, 2012, p. 95).

own standards for international listing in capital markets. Most significantly, this partnership of the IASC and the IOSCO helped the IOSCO gain more timely input in the IASC's deliberations. They believed that the completion of the work program prepared by the IASC would address all of the issues that they believed were "essential" and would result in an international standard with a comprehensive core set of values (Securities and Exchange Commission [SEC] 1997). Within the same year, the SEC announced that it intended to consider accepting IASC standards as the basis of financial reporting for foreign private issuers so long as the standards were "sufficiently comprehensive, high quality, and rigorously interpreted and applied" (FASB 2013). 1996 was a momentous year for the internationalization of financial statement reformation, especially for securities and the markets they were being sold on.

At this time, foreign companies were required by the SEC to file the 20-F to reconcile their accounting standards to GAAP standards. The 20-F is analogous to the 10-K of domestic countries, but allows foreign companies to retain their non- U.S. GAAP reporting to U.S. shareholders. In a study by Amir, Harris, and Venuti (1993), the researchers concluded that the Form 20-F was not required, which supported the announcement by the SEC to abolish the requirement of reconciliation. However, there were criticisms to this potential allowance were that U.S. investors would not be able to have accurately depicted financial information because of the differences between the standards. A later study showed that twenty- eight percent of all tested companies that reported under IFRS and utilized a Form 20-F reported a five percentage point higher ROE than under U.S. GAAP, while only five percent of the firms reported a lower ROE under IFRS (Henry, Lin, & Yang, 2009, p. 124). They also determined that shareholder's equity were value- relevant to the reporting of the 20-F, proving that it was probably best that this announcement did not end up coming to fruition.

The Asian Financial Crisis of 1997 had many ramifications in the accounting sphere as members of financial institutes such as the International Monetary Fund ("IMF"), the World Bank, G7 Finance ministers, and many others pushed for rapid completion and adoption of homogenous international accounting standards. One of the main causes of the financial crisis was that the countries experiencing the financial crisis were in the midst of rapid growth and significant gains, leading foreign investors to believe that their underlying economic structure was strong when it was, in fact, quite weak (Aghevli 1999). The policies and institutions in these countries were not equipped to handle the demands of so many rapidly expanding companies, and the crisis was a result of this mismanagement. Furthermore, a lack of enforcement of prudential rules and insufficient review of the financial institutes along with government lending practices that were not beneficial combined with the slow growth in foreign investors' home countries encouraged a lot of international investment prior to the collapse of East Asian financial institutions (International Monetary Fund [IMF] staff 1998). As a result, many international financial institutions began to pressure the government to create a more applied and more stringent international accounting standards, and all of the accounting standards boards globally increased their efforts towards harmonization.

In January 1999, the FASB published the *International Accounting Standard Setting: A Vision for the Future,* which laid out the FASB's objectives and goals towards an international accounting system of the future. They emphasized that they intended to ensure that the standards in this futuristic system would be of the highest standard attainable regardless of whether they were the primary body in charge of the standards or if they were merely a participant (Herz & Petrone, 2005, p. 636). They strongly believed that the creating of a high- quality global standard- setting body was crucial to the success of international implementation of accounting standards. What is more, they discussed the scope of the FASB's involvement in the harmonization of international standards and how its structure and process might potentially change over time. Finally, their vision included eight characteristics they believed to be essential for the accounting standard setter: leadership, innovation, relevance, responsiveness, objectivity, acceptability and credibility, understandability, and accountability. This ideal further reflected the FASB's growing affinity toward the convergence of international accounting standards.

4. The 2000s: Towards US Convergence with IFRS

The SEC issued a concept release, *International Accounting Standards,* in 2000, which sought input on a framework towards international convergence of accounting standards. They focused on the importance of financial reporting standards and the effects of a successful audit, as well as questioned the current quality of the IASC standards (SEC 2000). Critics of this claimed that the infrastructure that the SEC had laid out was too daunting, and if it were possible for all of the points in the infrastructure to be fully laid out, and if so, when if would actually come to fruition (Zeff, 2012, p. 822). Furthermore, within a year of the release, the IASC was restructured into the International Accounting Standards Board ("IASB"), and the SEC was required to consider new standards and a new board.

As a result of the IOSCO endorsement of the IAS, the IASC decided to reconstitute itself as a smaller board with mostly full- time members and a much larger technical staff (Whittington, 2005, p. 130). The restructuring of the IASC into the IASB primarily occurred between 2000 and 2001, and the IASB was formed with David Tweedie as its first chairman. The rest of the members on the IASB were comprised of 13 representatives from the United States, the United Kingdom, Australia, Canada, France, Germany, Japan, South Africa, and Switzerland (Zeff, 2012, p. 821). The primary projects of the initial IASB were in three main areas: a new improvements project, continuing old projects, and major reforms. The new framework consisted of a governing body, the Board of Trustees, which was tasked with raising funds and appointing members of the standards setting body, the Advisory Council, and the Interpretations Committee (Whittington, 2005, p. 130-131). They revised and reissued many of the IASs written under the IASC in 2004, which became known as the International Financial Reporting Standards ("IFRS") (Nobes & Parker, 2012, p. 101). The greatest success for the IASB in 2000 was perhaps that the European Commission proclaimed that members of the European Union must switch to adherence of IFRS by 2005 so that "securities can be traded on EU and international financial markets on the basis of a single set of financial reporting standards" (Commission 2000). The support for the IASB from such a large market as the European Union is one of the primary factors that the IASB was successful in implementing their standards and propelled other countries towards accepting their standards (Zeff, 2012, p. 823). When the vast majority of the companies within the European Union began to implement IFRS in 2005 in concordance with the EU declaration, cross- border comparability increased significantly, but nevertheless, countries still retained their own national identity in financial reporting (Zeff, 2012, p. 825). The European Union's experience with convergence to IFRS will be discussed in greater detail in the following chapter.

Meanwhile, the United States and the IASB agree to collaborate together to improve and converge U.S. GAAP and IFRS, as described by in the Norwalk Agreement, which was released in 2002. They intended to commit "to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting" (FASB 2002). The FASB and the IASB pledged to work together to make their current accounting standards compatible and maintain this relationship after convergence was achieved in order to maintain the compatibility. As a result of the Norwalk Agreement, the two boards began to meet together more frequently and became involved in joint projects together. Together, they have developed common standards in a few key areas and amended pre- existing standards so that they are more standardized (Larson & Street, 2006). It is unquestionable that both boards worked together with the hopes of attaining consistent accounting standards and were very committed to providing high- quality standards while maintaining their expectations. The Norwalk Agreement showed the United States willingness to converge with the IASB's standards and reflected their path towards international convergence.

In 2005, SEC Chief Accountant Don Nicholiasen addressed the progress of the FASB/ IASB convergence in a statement to the public. In it, he outlined a proposed roadmap of eliminating the requirement for all financial statements of companies listing on the Unites States Stock Exchange to file both the financial statements of their home country in addition to those adhering to U.S. GAAP under the Form 20-F. One of the main milestones that Nicholiasen believed were necessary in eliminating reconciliation to U.S. GAAP was the continued success of the IASB/ FASB convergence project (Nicholiasen 2005). Furthermore, Nicholiasen showed his support for the IASB and its work towards international conclusion and called greater public support for them so as to promote internationalization of financial reporting (Nicholiasen 2005).

The IASB and the FASB published a memorandum of understanding in 2006 describing the progress they had made towards convergence and all of the progress that they hoped to achieve by 2008. They decided to shift their focus from agreement of the two standards to creating higher- quality standards that would improve financial statements and their quality. Additionally, they wanted to replace all of the weaker standards with strong standards, which would serve all of the users of the financial statements better, specifically investors (FASB 2006). While the FASB and the IASB wanted convergence by 2008, they also recognized that many of the standards that required harmonization would be long- term projects and treated them as such. For the short term, they hoped to achieve equivalent standards in their joint projects impairment and income tax, as well as individual projects towards convergence (FASB 2006).

After Nicholiasen's support of eliminating the reconciliation requirement of foreign companies listing on the U.S. Stock Exchange, the SEC published a Proposed Rule in 2007 allowing companies filing financial statements under IFRS to not have to reconcile their financial statements to U.S. GAAP (SEC 2007). In it, the SEC highlighted the FASB and IASB efforts towards achieving compatible, high- quality accounting standards. This would simplify the process of achieving the goal of eliminating the requirement to file two sets of financial statements for MNEs. However, despite the

FASB's continued efforts and belief in a single set of high- quality aggregate accounting standards, the FAF, the organization which oversees the FASB, and the FASB responded negatively to this publication, claiming that allowing two standards would be extremely complex and confusing. They claimed that it would be better for U.S. investors to have a single set of standards because

- permitting choice would increase the complexity of the reporting system too much;
- the FASB, SEC, and other affected parties should all work together towards creating a plan for transitioning the U.S. public companies to IFRS;
- the SEC should seek international cooperation to help implement changes that the FASB believes are necessary to sustain the IASB and establish high- quality accounting standards;
- and eliminate separate jurisdictions for reviewing and endorsing IFRS because this results in inconsistencies cross- border (Financial Accounting Foundation [FAF] 2007).

Despite the negative reception of this step towards convergence of financial statements, the FASB and the IASB succeeded in publishing their first major joint project in business combinations in the same year. Section 141(R), the completed standard, gave investors and other users a more complete, comparable, and relevant financial statement through greater consistency in reporting business combinations. According to FASB member G. Michael Gooch:

> "The new standards represent the completion of the FASB's first major joint project with the International Accounting Standards Board (IASB)... and will

> improve reporting while eliminating a source of some of the most significant and pervasive differences between International Financial Reporting Standards ("IFRS") and U.S. Generally Accepted Accounting Principles (GAAP)" (FASB 2007).

The publication of this joint project was a major milestone towards convergence because of the level of collaboration present between the FASB and the IASB.

B. The EU Experience of Convergence

As a part of the Financial Services Action Plan, the European Commission ("EC") announced its intention to require International Accounting Standards for all companies listed on stock exchanges in the European Union. Recognizing the need to have a single set of financial reporting standards for the (then) fifteen countries in the EU, three in the economic area, and ten to be added, the European Commission considered it to be the best standard to adopt for all of its members. A single national standard, such as U.S. GAAP, was considered, but dismissed because the standards were designed to fit a single country, and one was not even in the European Union (Whittington, 2005, p. 129). Though large companies were attracted to using U.S. GAAP, the European Commission further did not support adoption of U.S. GAAP because they had no influence over the standards (Schaub, 2005, p. 611). They had the choice of creating a new European Accounting Standards Committee or adopting International Accounting Standards (IAS), of which the latter was much more appealing. Adopting international standards would be much easier for the EC because a complete set of standards was already readily available and endorsed by the International Organization of Securities Commissions ("IOSCO"), giving it international credibility (Whittington, 2005, p.129).

The plan for adoption of IAS was known as the Financial Services Action Plan ("FSAP") and in March 2000, the heads of the states of member states decided that the FSAP should be implemented no later than 2005. The EC published a proposal that required all listed EU companies to prepare their financial statements in accordance with the IAS in June 2000 so that greater transparency and comparability between the financial statements operating would be available in the European capital market (Schaub, 2005, p.612; Nobes & Parker, 2012, 311- 312). Rather than publish a directive, the traditional method of harmonizing company law, the Commission decided to publish a regulation. Regulations are directly applicable to all member states without intervention of national legislatures, which saved a considerable amount of time, especially with the 2005 deadline for FSAP completion (Schaub 2005).

Because of the restructuring of the IASC to the IASB in 2000 and 2001, the EC recognized a need for a committee to help consider whether changes in IFRS could be endorsed for use in the EU. This commission, known as the Accounting Regulatory Committee ("ARC"), was comprised of members from all of the EU member states and was intended to achieve a more EU- influenced IFRS, but actually resulted in a form of IFRS that is slightly different that the one published by the IASB (Nobes & Parker, 2012, 114- 115). To assist the EC in reaching a view on the new or amended form of IFRS, the EC created the European Financial Reporting Advisory Group ("EFRAG") in 2001 with the task of liaising with the IASB to ensure that the issues and standards considered important to the EU were considered. Specifically, the EFRAG would issue recommendations at a technical level, while ARC ensures ratification of the measures at the political level (Massoud, 2009, p. 13). To further assist the EC in decisions on ratification, the Commission set up a group of independent experts named the Standards Advice Review Group in 2006 to give it advice that is uninfluenced by government groups or accountants (Nobes & Parker, 2012, p. 114).

In 2004, the majority of the existing content of IFRS was endorsed, with the exception of the entirety of IAS 39 on financial instruments (Nobes & Parker, 2012, p. 116). Under IAS 39, two forms of hedge accounting were permitted: fair value and cash flow. Fair value hedge accounting reflects cases in which a financial instrument is used to hedge the effects of a particular risk factor. Specifically, it is designated as a firm commitment or foreign currency cash flows of a recognized asset or liability. Cash flow hedge accounting, relates to the hedging of future cash flows that, by definition, have not yet occurred. With a cash flow instrument, the value of an instrument is excluded from the profit and loss account and is directly recorded into equity. Only when the hedge account affects the income statement is it moved to a profit and loss account (Whittington, 2005, p. 140). The main opponents of IAS 39 were the French banks who were concerned that there was no option to mark financial instruments to market because of the potentially volatile earnings fair value accounting would have on their derivatives and trading positions. President Chirac of France wrote a particularly well- publicized letter to President Prodi of the EU expressing anxiety that the IASB standards were not sensitive enough to European interests (Whittington, 2005, 143). The EU endorsed a form of IFRS that allowed mark- to- market accounting to financial instruments, which was considered more flexible. However, in 2005, IAS 39 was amended to restrict the range of instruments that could be measured at fair value. The EU accepted this change, and the only resulting difference between the EU's endorsed version and the IASB version was the difference in hedge accounting (Nobes & Parker, 2012, p. 114).

Some concerns raised in light of the EU's endorsement policy of IFRS were that accounting was becoming an explicitly political issue. Because the EU- endorsed IFRS is not the same as the IASB's IFRS, there have been great confusion and audit problems (Nobes & Parker, 2012, p. 115). An example of this is the financial statements of GlaxoSmithKline in 2010 in which the auditors made a note that the group complied, "with the IFRSs as adopted by the European Union, has also complied wit the IFRSs as issued by the International Accounting Standard Board." A concern is that for companies listing on the US Stock Exchange, should they take advantage of the permission to use hedge accounting in the EU version of IAS 39, would have to file a second audit report to satisfy the SEC, which only accepts U.S. GAAP or "IFRS as issued by the IASB" (Nobes & Parker, 2012, p. 115). Another concern is that the IASB develops standards to meet the needs of global capital markets, rather than those of the EU, and it must be seen as impartial in its dealings and not susceptible to the political pressures of a single client. Because the EU is one of the "largest customers" of the IASB, they are more likely to exercise influence on the IASB and should be careful not to do so (Nobes & Parker, 2012, p. 116). A more extreme example of the EU's attempts to change IFRS to their own purposes was in October 2008 when the IASB amended IAS 39 to allow re-classifications of financial assets without consultation to other constituents. With more countries adopting IFRS, the influence of the EU will likely be reduced (Nobes & Parker, 2012, p. 116).

However, despite all the progress the EU made towards complete convergence and the adoption of IFRS, the United Kingdom announced that it has been working on a new version of their framework, "New UK GAAP" (PwC 2014a). As the only country in the EU to retain their currency instead of using the Euro, the UK has the potential to completely diverge from IFRS to its UK GAAP, thus hindering convergence efforts of the IASB. Should more countries decide to update and advance their own GAAP, the reach and effectiveness of the IASB will be significantly diminished. The decision to switch back to their own standards is likely due to the fact that they have little influence over the standards themselves, and returning to their own standards would increase their autonomy. Furthermore, countries that will potentially switch to IFRS are less likely to do so if countries that have already converged decide to diverge again. Without this confidence in the quality of IFRS, the IASB would be very unsuccessful in its efforts towards harmonizing international standards.

III. Roadmap

In August 2008, the Securities and Exchange Commission ("SEC") released a press release regarding their vote to publish for public comment a roadmap towards converging with International Financial Reporting Standards ("IFRS") by United States financial statement issuers beginning in 2014 (SEC 2008b). In this roadmap, the SEC addresses issues of convergence of U.S. Generally Accepted Accounting Principles ("GAAP") with IFRS including improvements in accounting standards, accountability and funding of IASC foundation, improvement in the ability to use interactive data for IFRS reporting, education and training, and implementation of mandatory uses of IFRS. Furthermore, they discuss the proposed amendments, which would be critical in the implementation of IFRS in U.S. financial statement issuers (SEC 2008a). The SEC, and specifically Chairman Christopher Cox, is focused on the increasing transparency and increasing the international language of disclosure. Chairman Cox further notes that the SEC and the staff have held 3 roundtables to discuss and examine the benefits and consequences of adopting IFRS, as well as releasing a concept release on allowing U.S. preparers to issue financial statements using IFRS if they chose so instead of requiring U.S. GAAP (SEC 2008b). Furthermore, two- thirds of all U.S investors own securities issued in foreign companies that use IFRS, which makes it doubly important that the U.S. investors look towards the adoption of IFRS.

In response to the SEC's request for public comment, the Financial Accounting Foundation ("FAF") and the Financial Accounting Standards Board ("FASB") responded with a comment letter (FAF 2009). In this, they highlighted their support for a single set of international standards, which would provide high- quality accounting standards globally, as well as addressing their recommendation to study and analyze the strengths, weaknesses, costs, and benefits of various approaches the United States could undertake in order to achieve convergence. In their response, the FASB and FAF reiterated their support for the Roadmap's call for studies by the Office of the Chief Accountant on the implications of international convergence for investors and market participants, and also called for the studies to examine the strengths, weaknesses, benefits, and costs of implementation approaches. They believed that this was necessary in providing information to the best path in implementation of IFRS in the United States (FAF 2009). They also

- recommended the creation of an Advisory Committee with members of various affected bodies to provide input into the study;
- commended the appropriate identification in milestones towards convergence;
- addressed concerns regarding a governing body of the standard setter;
- expressed concerns about the permission of optional IFRS or U.S. GAAP; and
- highlighted uncertainty of all participants in the United States financial reporting system regarding whether, when, and how the U.S. financial reporting would change (FAF 2009).

While they expressed support for the acceptance of IFRS, the FASB and FAF were skeptical of the effectiveness and immediateness of IFRS based on the magnitude and complexity of issues involved.

To address the feedback and the Commissions' consideration of the input received regarding the proposed roadmap in 2008, the SEC issued a statement that laid out their position on global accounting standards. In the statement, they reiterated their belief in a single set of high- quality, international accounting standards and its benefit to U.S. investors (SEC 2010a). They noted that respondents of the Roadmap proposal generally concurred in support for the goal of a single set of international standards but proposed different means of achieving said goal. The SEC directed its staff to create and execute a Work Plan that would help assist the Commission in its evaluations of converging with IFRS, as well as addressing areas of concern expressed by the responders of the initial Roadmap. In the press release about the statement, the Commission noted that if they decided to implement IFRS in 2011, the new incorporation date would be no earlier than 2015 (SEC 2010b). The FAF and FASB also demonstrated their continued support towards convergence efforts of the SEC and expressed their continued support in the incorporation of IFRS. They also reiterated their pursuit of improvement in the standards, which they believed were essential to completing all of their projects outlined in their Memorandum of Understanding (FASB 2010). One of the most significant implications of this press release was the push back of the implementation of convergence; in the original Roadmap, the SEC expected the complete integration of IFRS of 2014. This was one of the first signs and examples of the United States' stalling towards adoption of IFRS.

The IASB and the FASB created the Financial Crisis Advisory Group ("FCAG") in October 2008 as a joint initiative to address and resolve reporting issues that arose as a result of the financial crisis. The Boards' dedication to working together in "an internationally coordinated manner on improving financial reporting standards" was utilized in the group as an effort to assist in resolving accounting issues arising from the crisis (FASB 2008). In July 2009, the FCAG published a report detailing four chief areas of accounting weaknesses and contained a series of recommendations to combat weaknesses in these areas. The main areas addressed were effective financial reporting, limitations of financial reporting, convergence of accounting standards, standard- setters' independence and accountability (International Financial Reporting Standards [IFRS] 2009). The IASB in 2009 published their model to address the FCAG's concerns and recommendations. In 2010, the FASB published a differing model to the IASB one. Stakeholders urged the two boards to work towards a common solution to the differences (Burnet 2013). As a result of the stakeholders' requests, the two Boards abolished the two models and jointly proposed the three- bucket model for impairment in which the hedge accounting phase is split into two parts: general hedging and macro hedging (KPMG 2012).

In this, financial statement preparers impair expected credit losses by classifying them into a certain bucket, and as such, a certain impairment method (EY 2012). However, the FASB expressed concerns over the complexity of the three- bucket approach and unanimously voted to amend the proposed three- bucket model to make the measurement objectives simpler and address raised concerns. By December, they had issued for public comment a proposed Accounting Standards Update ("ASU") "Financial Instruments- Credit Losses (Subtopic 825-15)" to fully recognize the expected credit loss of financial instruments under its scope. They believed that their standard would

> "Provide financial statement users with more decision- useful information about the expected credit losses on financial assets and other commitments to extend credit held by a reporting entity at each reporting date... by replacing the current impairment model... with a model that recognizes expected credit risks and by requiring consideration of a broader range of reasonable and supportable information to inform credit loss estimates" (FASB 2012).

The FASB addressed the reason for differing from IFRS by stating that stakeholders were expressing concerns over the use of two significantly different measurement objectives and that they believed the three- bucket model left too much room for ambiguity. IFRS, however, continued to develop the three- bucket model and published an exposure draft for public review in March 2013, demonstrating their decision to diverge with the FASB on this issue (IFRS 2013). As of September 29, 2014, the FASB was still working on its own model, the Current Expected Credit Losses Model (FASB 2014a) and the IFRS

Foundation published the final version of IFRS 9, the three- bucket model, in July 2014 (IFRS 2014e). The departure from their joint efforts was instrumental in that it marked a significant divergence despite efforts towards joint convergence. This issue was the first time the two boards diverged significantly on joint projects rather than failing to come up with a single converged effort.

In early 2011, the FAF and FASB published a response letter to the IFRS Foundation entitled *Status of the Trustees' Strategy Review* (FAF 2011). In this, they outlined their major issues and comments regarding the objective of the general purpose financial reporting in the conceptual framework of the IASB. They respond to the question of the extent to which financial reporting standards and other public policy concerns should be reconciled with their belief that financial reports created to meet the needs of investors will also invariably meet the needs of potential regulators and other policy makers. They also answered the question of how the IFRS Foundation could balance independence with accountability by stating that they are complementary and thus do not need to be balanced. They also suggested consistency, which they proposed through the maintenance of standards that include both objectives and principles, cultivating mechanisms for the timely identification of inconsistencies, and having an infrastructure that settle implementation inconsistencies in a timely manner (FAF 2011).

In March, the FASB hosted a meeting of national standard setters from countries including Australia, Canada, Germany, Hong Kong, Italy, and the United Kingdom, among several others. At this convention, the committees focused on matters of mutual interest, including the progression of IASB projects and joint IASB and FASB projects, the review process after implementation of IFRS, and consultation with stakeholders

(FASB 2011b). After discussion on the financial instruments project, an IASB representative warned against viewing the differences as the FASB versus the IASB. He noted that concerns should be raised as differences to be jointly overcome. Though relatable to thus specific project, this is an important note to make of all future IASB and FASB convergence efforts; both parties need to view collaborations as a cooperative effort rather than a competition over which standards are set. They also discussed other projects and standards in which IFRS and other accountancy boards differ and focused on the issues regarding these efforts.

A month later, the FASB and IASB reported their progress on their work towards convergence in an updated Memorandum of Understanding ("MoU"). In it, they outlined the completed projects of the Board, the new MoU areas in which the Boards would focus their efforts upon (specifically, financial instruments, revenue recognition, and leases), extended the targeted completion date to beyond June 2011, and agreed that the push back of the date of effect would give preparers sufficient time to implement these changes. Not only did the two Boards succeed in stalling the date of implementation, they also pushed back their work efforts and claimed that it would not be possible to complete their convergence efforts in time. They asserted that they required more time so that they could consult with stakeholders and do further work (FASB 2011a). Deliberately stalling their convergence efforts, this further emphasized the differing natures of the IASB and the FASB and the difficulty of attaining full harmonization between the two standards.

In July 2011, Hans Hoogervorst replaced David Tweedie, the first chairman of the IASB. He was previously the co- chair of the Financial Crisis Advisory Board, which was part of the IASB and FASB joint initiative in 2008. Prior to his appointment as the IASB chairman, he was also the director of the Netherlands Authority for the Financial Markets, the financial service regulatory body for the Netherlands (IFRS 2014c). In an interview with the Journal of Accountancy, Hoogervorst talked about the challenges of his job as the new chairman, primarily that of the major economic powers that had not yet fully adopted international standards. Despite these challenges, he asserted,

> "If we can get all those countries [the U.S., India, and Japan] on board... then IFRS will be truly a global standard, and I think there's a great chance of achieving that in the next couple of years" (Lamoreaux 2011).

He optimistically also claimed that the SEC appeared on track to form a decision in favor of adopting IFRS. Additionally, when questioned about the possibility of the U.S. not adopting IFRS, Hoogervorst appeared extremely surprised and claimed that the only set of standards that could possibly be the global accounting standard would be IFRS. He further asserted that there would be no possible way that the U.S. would not eventually converge with IFRS. He believed that at worst, a decision against adopting IFRS in the current year would delay the incorporation process (Lamoreaux 2011).

As one of the greatest supporters for the United States convergence with IFRS, Chairman Cox did not achieve this goal by the end of his term. In 2012, he was replaced with Elisse B. Walter as the chairwoman of the SEC, and four short months later, Mary L. Shapiro replaced her. In April 2013, Mary Jo White replaced Shapiro and is currently the chairwoman at the present date of this writing (SEC 2013). In some ways, it could be argued that the great amount of change and turnover in the position of the SEC chairman may delay the United States convergence with IFRS, but the lack of consistency in communication and potentially tenuous relationships with the IASB are some other concerns that must be considered. However, this paper will not focus on the delays of convergence due to the large turnover in chairmen and simply desires to call attention to a potential cause of delay.

IV. GAAP and IFRS

Because the United States was one of the original members of the International Accounting Standards Committee ("IASC") and later the International Accounting Standards Board ("IASB"), many International Financial Reporting Standards ("IFRS") were written with the input of United States' accounting professionals and standard-setters. Many standards are thus fairly similar in practice. However, because the topic of this paper is to discuss the progress and delay in convergence of the United States accounting standards, the differences between the two accounting standards are more relevant in this paper than the similarities.

One of the largest differences between United States Generally Accepted Accounting Principles ("GAAP") and IFRS is that the former is primarily rules- based while IFRS is more principles- based (Hail et al. 2009, p. 7). The difference is that rules are less flexible while principles give preparers more discretion to report to investors. Rules are considered useful for reducing imprecision, but can lead to excessive complexity and purposeful structuring of companies such that their operations can avoid a certain threshold (Nelson, 2003, 100). Nelson claims that standards are at various points on a continuum from principles to rules, which suggests that though the two standards are different now, they might not always be. It is the most distinguishable difference, but definitely not insurmountable nor the sole barrier to convergence. However, among the individual standards, there are many areas in which the Financial Accounting Standards Board ("FASB") and the IASB have currently been unable to reach a consensus on. One of the reasons for this is that both boards claim to be working towards "high- quality financial reporting standards" (FASB 2002), but appear to have different definitions of what exactly that entails and how they are both planning on getting to that point. Furthermore, even the IFRS foundation admits that IFRS provides fewer detailed rules than U.S. GAAP, as well as limited guidance for specific industries (IFRS 2014d).

All of the research on the topic of convergence points to different results; some scholars believe that convergence is vastly beneficial to the United States while others allege that convergence would be less beneficial than hoped for. Unfortunately, one cannot look at previous countries in their paths towards convergence because of significant differences as a result of each country's uniqueness. Nevertheless, when determining the potential benefits of IFRS adoption, we must consider the difference between the U.S. and other countries that have already adopted IFRS as guidance. Though other countries may have reaped significant rewards from convergence, the U.S. will not necessarily have the same results. This is, in part, due to the significant differences between the U.S economy and that of the counterparts that have already converged.

First, the U.S. economy is by far the largest in the world, and it has a significantly larger public equity model than all of the other countries (Hail et al., 2010, p. 29). Their firms also rely heavily on external finance, which results in intense scrutiny by the capital market. Additionally, compared to other firms, U.S. households are much more likely to hold shares of a company (whether directly or through a mutual fund), which are often a large proportion of their retirement savings. As a result of this and the accounting scandals such as Enron, the U.S. focuses heavily on investor protection (Hail et al., 2010, p. 30). Second, the U.S. economy is diverse, and all traded groups cannot be treated as a single, homogenous group. The majority of companies listed for public trading own less than $200 million in total assets, and of those, only 25% have sales outside of the U.S. The variation in size in terms of asset value and the amount of globalization in terms of proportion of firms with sales outside domestic borders is similar to a random sample of 22,000 worldwide, non- U.S. public firms, thus demonstrating the high heterogeneity of U.S. firms. One reason that the U.S. cannot be treated the same as other countries is that though all public firms must file financial statements with the SEC, small firms that sell over- the- counter markets provide different financial statements than companies with a large market capital (Hail et al., 2010, p. 30).

Despite not being a perfect comparison to the United States, one can look at previous countries in their paths towards convergence to see some potential benefits. Nevertheless, potential benefits must be taken with consideration that actual benefits may be slightly lower than those of other countries. It is unclear whether convergence will yield more benefits than costs and obstacles. However, it is clear that with opposing views regarding the success of convergence, there is no single correct solution regarding international standards, nor is the debate on the benefits going to end with the U.S. adoption of IFRS.

A. Summary of Key Differences between IFRS and U.S. GAAP

Both U.S. GAAP and IFRS seek to have high quality financial statements that are both reliable and relevant for users. Relevance is the importance of information for a user's decision- making process while reliability is independently verified and materially accurate given all information at the date of the financial statement. One of the major differences between IFRS and U.S. GAAP is that IFRS framework puts a larger emphasis on relevance while the U.S. GAAP framework focuses more highly on reliability (Shamrock 2012). One such example is valuation of property, plant, and equipment (long- term assets). IFRS values long- term assets under either cost of revaluation. Revaluation reflects the fair value of the asset at filing date more fully, but may fluctuate based on the market. U.S. GAAP does not permit revaluation. IFRS gives companies the option to revalue their assets so that they are more *relevant* to the decision making process by reflecting current fair value. U.S. GAAP, on the other hand, allows only allows companies to value their long- term assets at cost, which is much more *reliable* because historical cost will not fluctuate in value (McGladrey 2012).

As a result of the WorldCom, Enron, and other accounting scandals, the Sarbanes-Oxley Act was passed in the United States with the intention of protecting investors. One of the ways it sought to do so was by increasing auditor independence, objectivity and professional skepticism. To do so, it required mandatory engagement partner rotation every five years. IFRS, on the other hand, requires mandatory audit firm rotation every three years. Research has shown that conservatism increases with the rotation of an audit firm in support for the IFRS method of attaining auditor independence (e.g. Kramer et al. 2011). Nevertheless, U.S. Government Accountability Office decided against mandatory audit firm rotation and instead decided on audit partner rotation. Considerations that led to this decision include the financial costs and the loss of institutional knowledge gained by previous auditor. In the U.S., firms publish audited information for the current year in addition to the prior two years. Firms might not publish the same audit opinion for the same company because of company culture. Additionally, engagement teams often consist of members that have worked on the client in the past and have knowledge of the company's business engagements. Additionally, the U.S. claims that there is increased risk of higher fraudulent reporting when there is changeover from one firm to another, with an exception for the mandatory audit firm rotation due to a discovery of a client's fraud (PwC 2012). Consequently to the United States' focus on preventing fraud and lowering costs, the U.S. chooses to have mandatory audit partner rotation while IFRS focuses on audit firm rotation. An overview of key differences between IFRS and U.S. GAAP can be found in Table I[3].

B. Benefits of Convergence

The convergence of United States GAAP with IFRS benefits three main parties: investors, preparers, and governments. Beyond the need by investors for a single, understandable set of financial statements, the adoption of IFRS by the U.S. is beneficial to the preparers of financial statements as well as the users. Not only does convergence with IFRS benefit multinational enterprises ("MNEs"), but it also affects companies only operating domestically. As for the government, harmonization would not only be easier for large public entities in its scope, but tax authorities would have much more simplified work (Nobes & Parker, 2012, p. 37). This comes as a result of increased comparability. For many countries, adopting IFRS would increase the quality of accounting standards

[3] For more detailed differences between the two standards, refer to either KPMG's "IFRS Compared to U.S. GAAP: An Overview" (2013). Ernst & Young's "US GAAP versus IFRS: The Basics" (2013), or PwC's "US GAAP versus IFRS: Similarities and Differences" (2014)

among the companies; however, the United States already has very high quality financial statements and far superior enforcement (Lin, Riccardi, & Wang, 2013, p. 10). As such, the quality of the financial statements, while relevant for other countries, will not be relevant to the U.S.

One of the main benefits of convergence with IFRS is the increased comparability of the financial statements of United States firms with those of international firms under IFRS. This not only increases the investor base with increased cross- border investment, but also gives companies more analogous income statements so that investors have a clearer understanding of the financial statements (Hail et al., 2009, p. 12). By increasing comparability, companies are more likely to garner foreign investor interest without having to release two sets of financial statements. However, even with the adoption of IFRS, entities will not have truly comparable financial statements for a variety of reasons, which will be discussed in greater detail later.

Though comparability gained from IFRS is limited because the United States is a large economy with many firms and comparability effects are more noticeable for smaller economies, there will still be some gains in similarity. With the growing convergence of the U.S. with IFRS, it is very likely that there will be few differences by the time of adoption (Hail et al. 2010). Nevertheless, research demonstrates that analysts are more likely to follow two firms if there is comparability and helps predict which companies that analysts will follow (e.g. De Franco, Kothari, & Verdi, 2011). The evidence from De Franco et al. also support the hypothesis that comparability not only lowers the cost of obtaining information but also increases the overall quality and quantity of information for analysts interested in a given firm. Increasing the comparability of financial statements through the U.S. switching to IFRS would ensure reliability, or at least be clear on the nature and magnitude of the differences. This would also give investors confidence in the soundness and trustworthiness of the auditing standards (Nobes & Parker, 2012, p. 31).

In addition to large companies and MNEs operating in the United States, other parties that may benefit from the adoption are third party organizations. Globalization of accounting standards will benefit international credit grantors such as the World Bank, as difficulties of comparison will greatly decrease. Additionally, governments will benefit from globalization because tax authorities have overly complicated work at the moment through assessing foreign incomes with differences in measurement of profit in different countries, which would noticeably decrease with a single set of comparable financial statements. Governments in developing countries will particularly benefit from harmonization of accounting standards because they will better be able to understand and control the activities of MNEs operating within their borders. Finally, labor unions of multinational employees might benefit from harmonization because they are able to understand the needs and work of employees in different places.

The third party that stands to benefit from the adoption of international standards is the international accounting firms. They strongly support globalization of international standards partly because this is beneficial for their large clients, but because it is also beneficial to their accounting quality (Nobes & Parker, 2012, p. 7). By having the ability to utilize accountants globally, they are able to do business with many more MNEs and their international employee base expands significantly.

V. Costs and Obstacles of Convergence

Though comparability of financial statements is crucial towards investor understanding, accounting standards cannot be entirely comparable and the costs associated with obtaining comparability are not insignificant. A major concern for investors is that the quality of financial statements will actually decrease. It is believed that having competition among multiple sets of standards will result in generally better quality for all sets of standards. Furthermore, with less representation, the United States will be unable to write its own standards that reflect their needs rather than standards that are written for the benefit of all countries. Next, we consider the financial costs associated with convergence, both initially during implementation and in the long- term. Additionally, we consider the needs for new training that professionals associated with the accounting profession will have to undergo in order to use and understand IFRS. As the focus of accounting education in the U.S is primarily on accounting measurement under U.S. GAAP, there is a significant learning curve to be overcome before IFRS can be fully and effectively used. Furthermore, the IASB is much more prone to preparer influence because they generate their funding from the companies that it is trying to set standards to govern; as such, they could be prone to the desires of the corporations that result in standards that do not necessarily benefit the investors and users of the financial statements.

Finally, it is impossible to have completely comparable financial statements because even with the strictest regulation, it is impossible to be fully comparable. One of these reasons is that IFRS exists to be much more flexible as a principles- based set of standards, and thus leaves room for interpretation. This might result in manipulation of earnings for the benefit of management. However, this also hinders comparability because no two managers will act in the same way, especially because they also have different circumstances and a different environment in their decision making process. Comparability is further limited by the culture of the company not just in the business sense, but for the country's identity as well. For example, the United States tends to treat individualism as an accolade, but Japan and many other Asian countries tend to treat the group as the highest order. As such, the culture of the same business may be significantly different in one setting from another based on the location of the office. Therefore, even comparability has its limits and should not be the sole benefit of convergence with IFRS.

A. Qualitative Considerations

With convergence to IFRS, the United States will lose much of their power over setting accounting standards. The FASB is tasked with setting standards in the United States with assistance and input from the United States Congress, the SEC, and court precedents. With conversion to IFRS, not only would the power to make accounting legislature be ceded from the FASB to the IASB, these other organizations will also have diminished power (Economist 2008). Companies in the United States will also lose a lot of their power to influence and affect accounting legislature with the implementation of IFRS since the IASB has to consider the best interests of companies while the FASB has to consider only those of the United States. While both the FASB and the IASB encourage public feedback to proposed standards, it is indubitable that U.S. companies have greater political sway due to lobbying. As a matter of fact, because the U.S. government is also involved in standard setting, lobbyists in the United States have more power than in any other country, with the majority of documented lobbying occurring in the U.S. annually (Nobes & Parker, 2012, p. 234). Additionally, despite currently having four seats of the sixteen seats on the IASB, some politicians worry that there is not enough representation for the U.S. because U.S. firms account for almost half of all of the global market capitalization (Economist 2008).

Scholars have done many studies showing that competition of standards is beneficial to creating good standards for everyone; like the competition among individuals encourages both parties to be better, so too is competition among standard-setters. According to some of these researchers, competition would work in a sense of Adam Smith's "invisible hand" and yield superior results. Sunder postulates that making choices in standards available to corporations will improve the efficiency of corporate governance and accounting standard- setting. Competition has thus far provided us with the development of capital markets and financial reporting and will lead to better accounting practices and standards and to lower cost of capital (Sunder, 2002, p. 232). Additionally, Kuhner's study demonstrates that multiple strategies catalyze the expansion of superior standard quality through the decimation of "bad standards" and the augmentation of "good standards" (Kuhner, 2010, p. 18). Additionally, it is believed that monopolies are not conducive towards innovation, especially those that are backed by a government like the FASB. Jamal and Sunder (2014) posit that giving companies the opportunity to choose to use local GAAP, U.S. GAAP, or IFRS may be more successful for companies than reducing all competition through a single harmonization. Dr. Paul Miller supports competing standards, as he believes that only weak standards will be unanimously agreed upon and are thus much less effective. Additionally, given that most of the standards are over sixty years old, he claims that a unified set of standards would stifle innovation (Bogoslaw 2008). While having a single set of standards for comparability is beneficial to stockholders, many scholars argue that having a single set of financial standards is actually detrimental in practice.

One of the main reasons proponents of U.S. GAAP cite as a reason against convergence with IFRS is that U.S. GAAP are of higher- quality, and therefore should be the standard to which all other standards should be help to. However, according to Leuz's study, the differences in the bid- ask spread and share turnover between IAS and U.S. GAAP firms are statistically insignificant and small at the economic scale (Leuz, 2003, p. 446). While this evidence does not support the claim that U.S. GAAP is a higher quality set of standards, this also means that IAS and U.S. GAAP firms exhibit similar standards in terms of quality. With no substantial difference, one can argue that the costs of switching from one standard to another are far more costly than they are beneficial, and as such, have no purpose. Lin's study further confirms these findings; both adoption and convergence increased comparability of financial statements prepared by U.S. GAAP and IFRS. On the other hand, when convergence is present, there is no incremental benefit from the adoption of IFRS (Lin 2013). Barth's study further demonstrates that IAS accounting amounts and reconciled U.S. GAAP amounts presented on the Form 20-F are of similar quality (Barth, Landsman, Lang, & Williams, 2006, p. 26). The results of these three studies demonstrate that there is little difference in quality of the financial statements based on the standards themselves. That said, U.S. GAAP is indubitably more detailed and is as such the basis for which other countries using IFRS look to for guidance in specific areas.

Despite being of similar quality, Barth's study also discovered that IAS firms have a much higher tendency to smooth earnings based on their earnings volatility (Barth et al., 2006, p. 26). While the researchers were unable to determine the significance of the above findings, they are consistent with many arguments against IFRS. In addition, they also discovered that IAS firms were more likely to manipulate their earnings toward more positive earnings. Conversely, they are less likely to recognize large losses in a timely manner. Along with evidence for earnings smoothing, this finding consistently supports the hypothesis that IAS firms are more likely to manipulate their financial statements through smoothing their earnings (Barth et al. 2006).

Even more support for the continued use of U.S. GAAP in the United States is resultant of the regulation of FASB standards. The FASB is also overseen by two organizations above it: the Financial Accounting Foundation ("FAF") and the Securities and Exchange Commission ("SEC"). Since the SEC is tasked with regulating the securities industry and enforcing laws on securities, they protect the investors of companies publically listed on the U.S. stock exchange. The IASB, however, does not have an organization tasked with protecting the investors above it; the only oversight it has is the IFRS Foundation, whose main task is overseeing the IASB. As such, it can be argued that U.S. GAAP looks over its investors more than IFRS does at the moment and is better for investors in the U.S. The IOSCO examines securities traded at the international level, but does not have the same amount of power as the SEC and PCAOB do together.

In the United States, the Public Company Accounting Oversight Board ("PCAOB")

- registers accounting firms;
- inspects registered public accounting firms;
- establishes audits and required attestations, quality control, ethics, and independence standards for registered public accounting firms; and
- investigates and disciplines registered public accounting firms and their associated persons for violations of specific laws or professional standards (Deloitte 2014b).

In addition to the PCAOB, which audits the audit firms and ensures that they are interpreting U.S. GAAP standards correctly and further safeguard against fraud, the SEC oversees all public companies. The SEC is tasked with enforcing the federal securities laws, proposing new securities rules, and regulating the securities industry. As such, they ensure that the securities industry is regulated and that investors are protected. Between the two regulatory bodies, U.S. GAAP is upheld for the most part and fraud is greatly discouraged.

IFRS, on the other hand, does not have a regulatory agency like the PCAOB or the SEC for the FASB to verify that firms are accurately and lawfully applying IFRS to their financial statements across all of the countries using IFRS. This is, in part, a result of how some countries have adopted IFRS in in some parts and not in others. Without complete convergence to a single set of globally accepted standards, it is difficult for enforcement of the standards. Furthermore, it is difficult for countries to collaborate in enforcing these principles cross- borders when each country's regulatory body regulates securities within their own borders and no one body regulates all of the companies using IFRS consistently.

B. Financial Costs for Firms

Because IFRS leaves more room for manipulation, it is likely that management consequently will manipulate their financial statements more under IFRS at the expense of the shareholders. Furthermore, the switch from U.S. GAAP to IFRS will likely cause U.S. investors five trillion dollars related to switching costs, training and education, as well as the resulting value of market capitalizations according to David Albrecht in 2008 (Massoud, 2009, p. 32). Companies will expend a significant amount of income in the initial switch to IFRS, which would be passed along to investors through a decrease in income and a drop in share price. Additionally, drops in share price may contradict analyst predictions of share prices and be detrimental to the world economy.

There have been claims that financial reporting under internationally recognized standards lowers the cost of equity capital of adopting firms and adoption of IFRS is economically beneficial to the adopting country. Based on Danske's study, there is no empirical evidence to support this claim. Contradictorily, the overall results suggest that firms reporting under the non- local standards have a higher cost of equity, which may be due to the cost of capital being determined more by management incentives of a company rather than the financial reporting standard (Daske, Hail, Leuz, & Verdi, 2008, p. 1125). This study demonstrates that the cost of capital does not indeed improve, and might actually harm a country more than it helps, invalidating claims of financial benefit in favor of IFRS. Therefore, adoption of IFRS will result in a lower profit for companies and is not financially helpful.

Other financial costs incurred during the process of convergence are initial costs related to adoption of IFRS for institutions and organizations and accounting firms. For example, costs of hiring and training of accounting and finance professionals in IFRS principles, costs related to the publishing of two different sets of standards, and the costs of informational technology to support the change to IFRS, the cost of implementing and maintaining new controls (Massoud 2009), and revaluation of costs that may lead to a deferred tax asset or liability or to an unrealized gain or loss. Education and training will be discussed more in the following section, but first we must consider the costs of adoption related to the transitional period of adoption.

Before an entity can completely adopt IFRS, there is a transitional period in which it must report both a financial statement under its country's GAAP and IFRS. This is costly for the company because they must employ more internal accountants to prepare their statements as well as more external auditors to audit the second set of statements in accordance with the two standards. As such, they must have two sets of professionals knowledgeable in the two standards. Furthermore, they must create a technical infrastructure for the reporting of these two different financial statements, which is a costly endeavor and requires some time. In most cases, the corporation must either invest in completely new reporting software or restructure their current ones. Regardless, the costs associated with training an employee in the new system and the costs of obtaining this new reporting software are higher than when no switching is necessary. Finally, with different standards, institutions and organizations must reevaluate their internal controls and change them so that they comply with IFRS instead of their old standards (Hail et al., 2010, p. 374).

Other costs, though not as significant, that must be considered are potential tax payments in the first years of convergence. Because inventory valuation is different under IFRS than U.S. GAAP, a switch from U.S. GAAP to IFRS will result in a significant revaluation of inventory for U.S. firms. Specifically, switching to IFRS will result in a significant increase in the value of inventory when we switch valuation of the inventory from the last in, first out ("LIFO") method of accounting to the first in, first out ("FIFO") method of accounting. This increase in inventory valuation will result in a large tax penalty for companies that were used to the tax break allowed under LIFO (Bogoslaw 2008). As such, companies will suffer significantly more losses, which will be reflected in their share price, thus giving casual investors an inaccurate depiction of their company value. Convergence with IFRS could thus prove not only costly in terms of deferred tax liabilities accrued, but also in investor confidence in the company's performance.

While there are many costs associated on the macroeconomic level of the country's power on a global scale that must considered, costs attributed to the preparers of the financial statements must also be contemplated. As such, when considering costs incurred by switching to IFRS from U.S. GAAP, we cannot discount those that the firms incur when they switch over from U.S. GAAP to IFRS.

C. Education and Training

To move from using U.S. GAAP to IFRS, investors, accountants, auditors, and other parties involved in the use or preparation of financial statements must be retrained, as there are significant differences between U.S. GAAP. One of the largest obstacles to convergence to IFRS based on academicians and practitioners was the lack of education, understanding, and experience of financial reports with the use of IFRS (Rezaee, Smith, & Szendi, 2010, p. 148). Among academics, lack of education in IFRS ranked the highest among all of the obstructions towards convergence and is a significant consideration that must be recognized when determining the potential adoption of IFRS.

At the moment, accounting education in the United States focuses on U.S. GAAP, with very little education on and practice of IFRS. To combat this, the Big Four Accounting Firms have published and made available materials regarding the major differences between U.S. GAAP for the use of the public. The AICPA has also increased efforts to encourage the study of IFRS through published a detailed report in addition to requiring Certified Public Accounting ("CPA") test to include questions regarding IFRS (Massoud, 2009, p. 34). By doing this, they hope that college and universities will teach the next generation of accountants to be more able to apply IFRS in the workforce. The PCAOB is also offering training courses to their staff so that they are better able to inspect companies that do business outside of the United States in addition to their training in U.S. GAAP.

Finally, though the regulators in the United States are fairly familiar with IFRS, they still need to be further trained in IFRS before the education and training gap is no longer an issue. To advance the possibility US adoption of IFRS, SEC staff must be equipped to file financial statements prepared under IFRS.

D. Funding of Oversight Entities

Initially, the FASB was funded from voluntary contributions from market participants. However, after the Enron scandal, governmental officials recognized the need for an independent standard- setting board and passed legislature under the Sarbanes- Oxley Act of 2002 to help promote independence (Massoud, 2009, p. 35). Under this act, the FASB began to receive its funding from all publicly listed companies in the United States as a part of its accounting support fees (FAF 2014). Though they continued to receive their funding from the companies that it was tasked with creating standards for, they became more independent because they were less prone to lobbying from the companies that funded them. Because companies have to pay the fees in order to file their financial statement on the U.S. stock exchange, the FASB is not funded through donations that could be contingent upon the passing of certain standards. In addition, generating the majority of its income from accounting support fees creates a stable funding source for the FASB so that they are not as easily subjected to internal or external pressure. Unfortunately, the IASB did not have the same fortune in receiving consistent funding and still is funded through contributions.

The IASB continues to generate its funding from voluntary contributions. It is believed to less reliable in some ways because they are subjected to pressure from authorities and interest groups, which may undermine its independence. Additionally, the IASB is funded by a donation system from the Big Four auditors, a few large companies, and official organizations and associations of countries that have already adopted or in the process of adopting IFRS (Alali & Cao, 2010, p. 84-85). As such, we can argue that because the IASB is not independent of the companies and organizations for which it is supposed to be unbiased, it is more prone to financial threats in passing standards. In fact, in 2013, the EU threatened to make its contributions, which make up about a third of the total IASB funding, conditional on the IASB reference of "prudence" in its basic tenets (Jones 2013). Because the groups that hold an interest in the passing of the IFRS are the primary funders of the IASB, it is worrisome that they might have undue influence. Then- chairman of the SEC Mary Schapiro voiced her concerns that, "the

IASB lacks an independent and assured source of funding, as the IFRS Foundation no authority to impose funding requirements" (Schapiro 2011). In the case of financial pressure (i.e. after the financial crisis of 2008), the IASB may be desperate for funding and be more malleable to external pressures (Alali & Cao, 2010, p. 85).

The SEC has blatantly stated that future convergence is dependent on the ability of the IASB to become financially stable with a funding mechanism that supports its ability to function independently (Massoud, 2009, p. 37-38). Given the IFRS Foundation is still funded through donations from international accounting firms and as a portion of each country's gross domestic product, it appears that they still have not attained independence and convergence and that they are no closer than they were at the time the SEC made this statement. Furthermore, the Trustees of the IFRS Foundation have claimed that they need a higher budget to respond to the increase of work that the Board will have to do in the future (IFRS 2014b).

Another potential source of funding for the boards could be through charging the users of the financial statements. Paul Miller of the University of Colorado says,

> "A better source of funding for a standards board would be stock exchanges, which could charge a fee to buyers and sellers who use the exchanges to do transactions and presumably are users of financial statements" (Bogoslaw 2008).

Under a system such as this, boards would be able to maintain more independence while simultaneously passing the burden of financing off to the users. It is believed that users of the statements would be less likely to use their financing power to lobby standard setters to set standards that are open to interpretation, creating higher quality standards.

E. Limitations of Comparability

Consistently with the view that reporting incentives and discretion apply to reporting comparability, evidence from countries that have already adopted IFRS suggests that countries tend to refer to their previous, local GAAP when making decisions that require judgment. As discussed by Hail et al. (2010), it is very unlikely that IFRS adoption will result in true comparability in reporting practices because of this tendency. Daske et al. (2008) determined that the magnitude of the benefits of comparability is a function of the closeness of the local GAAP to IFRS; in the case of the United States, there would very little benefit in comparability through convergence or adoption. Any benefits would be slight because IFRS already resembles U.S. GAAP in many areas, which means that any benefits that companies would reap from switching completely from U.S. GAAP to IFRS have already been realized during the process of convergence between the FASB and the IASB (Hail et al. 2010).

1. Culture

Culture, the basic values that an individual may hold, plays a large part in determining institutional form and practices that lead to standards (Hofstede, 1980, p. 106). The four basic dimensions of culture are:

- *Individualism versus collectivism:* whether individuals motivated by societal needs or by personal needs; specifically, how interdependent are individuals in a society?
- *Large versus small power distance:* the extent to which members in a society accept that power in a organizations are distributed unevenly. It addresses how society treats inequalities among people.

- *Strong versus weak uncertainty avoidance:* how uncomfortable members of a society feel with uncertainty and ambiguity. This determines how members of the society confront the future given the linearity of time; do members attempt to control the future or try to let it happen.
- *Masculinity versus femininity:* whether a society prefers a society of achievement, heroism, assertiveness, and material success or relationships, modesty, caring for the weak, and the quality of life (Nobes & Parker, 2012, p. 29).

Gray (1988) uses the above cultural differences to explain international behavior of accountants, which leads to differences in accounting practices. Using the above categories, Gray creates his own contrasting pairs of "accounting values":

- professionalism versus statutory control;
- uniformity versus flexibility;
- conservatism versus optimism;
- secrecy versus transparency.

Many papers have since attempted to measure the impact of culture on international financial reporting. There is little support for Gray's hypothesis because his "accounting values" are difficult to measure, but researchers have determined that his contrasting accounting values pertain strongly to the behavior of auditors (e. g. Soeters & Schreuder, 1988). One degree of uniformity tested was by categorizing countries as either common law or code law, but it was not a true test of difference in accounting practice but likely a test of a possible cause for them (Nobes & Parker, 2012, p. 31-32).

Tsakumis (2007) also studied the influence of culture in a country's accounting practices and actually postulated that Gray's framework was flawed regarding conservatism. Through studying Greek and U.S. accountants' treatments of contingent liabilities and assets, he found that Gray's predicted values were more likely applicable to individual accountants' disclosure decisions, in which the individual is more likely influenced by culture than a country as a whole compared to another country. Though one cannot aggregate a single country as a single culture, an individual is more likely to act in a manner similar to another person of his culture than one with a different cultural background (Tsakumis, 2007, p. 43). As such, standard areas that require a large amount of judgment will be largely inconsistent between countries with differing cultures. Furthermore, all people in the same country do not necessarily have the same culture; in some colonial countries, the colonizing country influences some individuals while others are influenced by the local culture. Moreover, countries like Abu Dhabi and Singapore have a large base of international members and smaller minority populations influence others (Nobes & Parker, 2012, p. 30). With many cultures in a single country, we cannot aggregate a country as one culture. As Ray Ball states, "it is unrealistic that the more than 100 countries embracing global accounting will set these rules in the same way" (Iwata 2009). With vastly different historical backgrounds, it is unlikely that countries will be comparable even with full global adoption of IFRS. With so many cultural differences between citizens of the same country, it is unreasonable to assume that people in different countries will disclose and report in the same way.

Additionally, even with full global convergence, differing auditing culture among IFRS adopted countries will be barriers to complete comparability between financial statements of different countries. For example, in some European countries, auditors are less inclined to issue a qualified report for companies with financial statements that are different from the national standards (Zeff, 2007, p. 293). Because some countries may have differing auditing cultures, firms in some countries with more lax auditing cultures may be more willing to depart from IASB standards, thus hindering comparability.

2. Differences within IFRS

To further hinder comparability, IFRS is a much more flexible set of accounting standards than U.S. GAAP. This results in IFRS having many more options available to its users. Some of these are overt, and specifically allow its users to use their discretion in applying the standards. Others are more covert and arise from vague criteria within IFRS and different interpretations of the standards among preparers of financial statements. Nevertheless, the options provided within IFRS itself pose a concern for true comparability between financial statements.

In the early 1990s, there were a large number of overt options within IFRS, which the IASB has been addressing and gradually removing, especially in 1993 and 2003 as a result of two "improvement" exercises (Nobes & Parker, 2012, p. 165). In the format alone (IAS 1), investors could have difficulty finding truly comparably financial statements. A fully detailed table of all the overt differences allowed by IFRS as of 2011 is found in Table 2. Some examples of differences between countries that both use IFRS can be found by examining Germany and the United Kingdom. The most noticeable difference is that Germany continues to use the report format while the UK uses the financial position format. Furthermore, when valuing their inventories, the UK uses the FIFO method, while German companies use weighted average valuation for tax reasons, as FIFO is prohibited by German tax law, and LIFO for unconsolidated financial statements (Nobes & Parker, 2012, p.166).

To further prevent full comparability between financial statements, some covert differences arise from vague criteria in IFRS. Capitalization depends on demonstrating a vague set of criteria are met, such as feasibility of completion, intention to complete, and availability of adequate resources to complete. Therefore, there is a large range of potential intentional or unconscious difference driven by how a company is financed, domestic laws, and tax laws. Further proof that covert option within IFRS exists can be demonstrated by the existence of the IFRS Interpretations Committee, whose primary purpose is to reach consensus on the appropriate accounting treatment and provide guidance on such issues (IFRS 2014a). A full table of covert differences can be found in Table 3. As such, differences between preparers using IFRS will differ even further and in areas unforeseen than intended by the standard writers.

Because IFRS aims to be principles- driven rather than rules- based, differences will arise out of their attempts to avoid detailed prescription. Merely by being principles-based, IFRS hinders comparability from allowing interpretations of their standards. While allowing flexibility for managers is certainly laudable, it can be argued that allowing for so many differences within IFRS actually hinders its ability to be a truly comparable set of global standards.

3. Management Incentives and Manipulation

When considering a switch from U.S. GAAP to IFRS, we must consider the increase of management discretion in making financial decisions. Studies have shown that increasing managerial discretion makes corporate information more useful and informative (e.g. Burgstahler & Dichev, 1997 and Jeanjean & Stolowy, 2008). These studies claim that IFRS gives preparers more financial freedom because the application of many standards requires judgment. An example would include accounts such as allowances and reserves; how much a firm sets aside is entirely based on the managers' private information and judgment. These reserves leave room for managers to manipulate earning. To smooth earnings, they could merely change the amount they set aside in reserves yearly.

Assuming a manager is using the information to present reports that accurately predict a company's future earnings and reflect firm performance is contingent upon the manager's incentives. While the public would like to believe that managers are motivated by honesty and representing their company accurately, they are often motivated by profit margins, smoothing earnings, and meeting analyst predictions, among other things. Even in a perfectly utopian world with perfect enforcement, reporting behavior between firms will differ from one another as long as discretion is an option in the standards (Massoud, 2009, p. 40).

Studies seem to differ in opinions on whether IFRS decreases or increases earnings management. Consistent with regulator's claims that the adoption of IFRS enhances the comparability of financial statements, improves transparency, and augments the quality of the financial statements, Barth, Landsman, & Lang (2008) determined that there were decreased earnings smoothing for firms' voluntary adoption of IFRS between 1994- 2003. In contrast to Barth et al.'s results, Ahmed, Neel, & Wang (2010) found an increase in management of earnings in mandatory adoption of IFRS. As a result of the EU's lobbying for more flexibility regarding IAS 39 in 2005, IFRS became significantly more flexible than it was prior to EU adoption. A resulting study determined that greater flexibility in IAS/ IFRS standards has resulted in a rising increase in management of earnings (Capkun, Collins, & Jeanjean, 2012). Therefore, in support of both Barth et al.'s findings and those of Ahmed et al., Capkun et al. ascertained that IFRS changed significantly between the early voluntary adoption stage and the later mandatory adoption stage. They conclude that the allowance of greater flexibility does not benefit users of financial statements. Furthermore, because U.S. GAAP was already less flexible than IFRS prior to the EU adoption, an adoption of IFRS could increase management of earnings even more than for companies adopting the current version IFRS.

Not only will management manipulation increase, based on evidence of countries that have already completely adopted IFRS, we can also conclude that the large scope of managerial judgment in the current version of IFRS actually leaves sufficient room for managerial incentives to motivate financial reporting despite having a single set of shared accounting standards. "Sharing rules is not sufficient in itself to create a common business language," according to the findings of one such study (Jeanjean and Stolowy 2008). Despite having the same standards, leaving room open to interpretation allows managers to manipulate earnings such that they are less useful to the investors, but also decreases the quality of the financial statements. Consequently, with reporting incentives across firms, industries, stock exchanges, countries, and political regions, comparability in reporting and disclosure will not be achieved with just the adoption of a single set of standards globally, regardless of the quality of enforcement (Massoud, 2009, p. 40).

VI. Conclusion

The FASB issued its first formal plan for adoption of international accounting standards in 1991; yet twenty- three years later, the United States has still not converged with the international accounting standards. In 2002, with the signing of the Norwalk Agreement, the United States signified that it was committed to improve and converge U.S. GAAP and IFRS, yet today, there are still many differences that prevent harmonization in the near future. One such example of the stalling the United States displayed was in the updated Memorandum of Understanding ("MoU"). In the original MoU of 2006, the U.S. claimed that they intended to have a common set of accounting standards by 2008. However, in 2008, they updated their MoU to reflect the progress made since 2006, of which there was little substantial progress, and pushed their deadline for convergence to 2011. Finally, in the updated 2011 MoU, the FASB did not even have a targeted date of convergence, only that they would extend their timetable on the convergence work being done. Postponing the targeted date of convergence to the point when the actual date of convergence is no longer listed leads us to the question, "will the U.S. ever use IFRS completely instead of U.S. GAAP?"

To do this, we must first compare convergence and adoption. As defined earlier, adoption of IFRS involves a much shorter timeline than convergence, and would result in the U.S. using IFRS shortly. However, the U.S. has not yet done so, which is attributed to the fact that adoption is believed to be much more costly than convergence, although the convergence projects appear to have a similar effect on financial statement comparability (Lin et al. 2013). Even the AICPA agrees: they claimed that convergence with IFRS would be much more cost effective and result in much less complicated standards than adoption. As such, the process of convergence has been much slower than if they U.S. were to completely adopt the standards immediately.

One of the reasons convergence has stalled is that Bob Herz and Sir David Tweedie, the former chairmen of the FASB and IASB respectively, have both stepped down from their posts. As a result, the momentum generated from previous convergence efforts and the success of the EU adopting IFRS dissipated. Furthermore, the SEC, one of the main proponents of IFRS convergence, has been busy with implementing the Dodd- Frank reform law in light of the recent financial crisis in the U.S. and has been unable to focus its efforts on the convergence efforts. Finally, former SEC Chairman Christopher Cox, the formerly most vocal supporter IFRS in the U.S, is not only no longer serving as the chairman, but has also rescinded his support of IFRS (Rapoport 2014). In a speech at the University of Southern California accounting conference, he said, "Today, I come to bury IFRS, not praise them," adding that he thought switching from U.S. GAAP to IFRS "might once have been possible, but it is no longer (Rapoport 2014). Cox further criticized the IASB by stating that convergence efforts have diminished because of the IASB's unwillingness to address concerns U.S. investors' concerns and thus has caused American enthusiasm for IFRS to recede and drift away from IFRS.

One of the reasons the momentum for the convergence of the two standards has mostly stalled is that the perceived costs outweigh the perceived benefits of switching to IFRS. The main benefit of utilizing IFRS instead of U.S. GAAP is that it would increase comparability of financial statements globally. Nevertheless, there are significant barriers to complete comparability, and as discussed earlier, switching to IFRS does not necessitate perfect comparability between two companies. A second significant benefit for most countries choosing to switch to IFRS is an augmentation of reporting quality. As discussed earlier, given that the United States already has strong financial statement reporting, this benefit would be negligible, if there even is one. The costs of convergence for U.S. firms are simply much higher than for firms in other countries, which hinders the United States' willingness to converge with IFRS.

U.S. GAAP has served U.S. investors and shareholders well in the past. With a strong investor protection focus, U.S. GAAP serves to make financial statements useful to the investor and other users of the financial statements. Like the EU had problems with IFRS not serving their needs fully because of their focus on a global level, a concern for U.S. convergence with IFRS is that the principles will not serve the U.S. as well as GAAP does for them. Though there have been many accounting standards in the United States such as Enron in 2001, WorldCom in 2002, and the Lehman Brothers in 2008. Nevertheless, the United States Congress, the SEC, and the FASB have learned lessons from these scandals and adjusted their rules and regulations accordingly (e.g. Sarbanes-Oxley as a result of the Enron and WorldCom scandals and the Dodd- Frank Act as a result of the Lehman Brothers, American Investment Group, etc. scandals in 2008). As a result, the U.S. continues to be the largest capital market and is quite successful in using U.S. GAAP to report to its investors.

Nevertheless, IASB head Hans Hoogervorst remains optimistic that the U.S. will one day fully converge with IFRS. He believes that the momentum for IFRS support is "irreversible," and that the United States will one day converge with IFRS (*The Economist* 2012). While Hoogervorst holds this position, it seems doubtful that the

United States will be using IFRS as its primary financial statement language in the near future. The United States should continue to focus their efforts on converging with IFRS and narrowing the gap between the two standards that "like railway tracks that appear to converge but never intersect" (*The Economist* 2012). Should IFRS converge with U.S. GAAP to the point where it is no longer costly to switch to IFRS, the United States would benefit from adoption of IFRS if, and only if, IFRS is applied more consistently across all of the countries it is already adopted and an enforcement body for IFRS is created.

Finally, with the UK diverging from IFRS, it appears unlikely that the IASB will have continued success with their efforts. With global financial leaders utilizing their own financial standards, the IASB will not continue with so little support. With the largest market power other than itself diverging from IFRS, it seems even more unlikely that the U.S. will converge to IFRS.

IFRS showed a lot of promise to be the golden standard for global accounting. However, the costs associated with switching to it, and the relatively low benefits associated with harmonization make it unlikely that the U.S. will ever be a user of IFRS. Should the IASB become more financially independent and the financial costs of convergence be lowered, IFRS could continue to be beneficial to users and preparers of financial statements, but it is very unlikely that the costs will be so low that it will be feasible in the near term. It is my personal belief that the continued efforts of the FASB will be to continue honing U.S. GAAP to fit the needs of U.S. companies rather than converging towards IFRS.

VII. Appendix

A. Table 1: Examples of Differences Between IFRS and U.S. GAAP differences

U.S. GAAP	Similarities	IFRS
Presentation of financial Statements		
• Allows the changes in shareholder's equity to be presented as a footnote	• Complete set of financial statements include a statement of profits and losses (income statement), a statement of comprehensive income, and a statement of cash flow, with changes of shareholder's equity listed somewhere in the statement	• IFRS requires a separate statement according to IAS 1
• No specific format for the balance sheet and the income statement	• Information presented as accruals with similar concepts regarding general materiality and consistency in financial statement preparation.	• Minimum amount of line items are required
• Deferred tax assets can be classified as either current or non- current		• Can only be classified as non- current.
• Expenses can only be classified by function		• Expenses presented as function or nature (EY, 2013, 4)
• Interim period part of the annual period (KPMG 2013)		• Interim periods are considered a separate, discrete reporting period
Consolidation, Joint Venture Accounting, and Equity Method Investees/ Associates		
• Specific industries in which the subsidiary does not have to be consolidated (KPMG 2013)	• Control determines whether entities are consolidated by a reporting entity (EY 2013, 7)	• Subsidiaries are consolidated without exception into the parent company's financial statements
• Differences allowed if both in accordance with U.S. GAAP (Mirza & Ankarath 2012)		• Both the parent company and the subsidiary must have the same accounting policies
• No voting rights, even if they have "de facto control" (EY 2013)		• Considers both potential voting rights and "de facto control"
Business Combinations		
• Permits only fair value measurement (KPMG	• Acquirers of a business combination	• Non-controlling interest measured at fair value or the

2013)	recognize contingent liabilities when a present obligation arises from past events and fair value can be reliably measured (Mirza & Ankarath 2012).	proportionate interest in the net interest of the acquiree on acquisition date
• Contingent assets recognized at fair value on the date of acquisition if determinable (PwC 2014c)		• Does not recognize any contingent assets (PwC 2014c).
• Loss considered probable as "likely," if probability of loss above 70% (EY 2013)	• Both require recognition when a loss is "probable"	• Probably considered "more likely than not," with a probability of above 50%
	Inventory	
• May choose to use either the first in, first out ("FIFO") method of costing or last in, first out ("LIFO") method of costing	• Inventory defined as assets held for sale in the ordinary course of business	• Explicitly prohibits LIFO
• Consistent, but not necessarily the same, cost formula for all of inventories similar in nature allowed	• Selling, storage, and general administrative costs are excluded from the cost of inventories (PwC 2014c)	• All inventories to be priced according to the nature or use (KPMG 2013)
• Inventory only be carried at the lower of cost or market (EY 2013)		• Inventory only carried at the lower of cost or net realizable value
• Reversals of write- downs to lower of cost or market prohibited (Mirza & Ankarath 2012)		• Reversal of adjustments under specific, defined conditions allowed
	Long- Lived Assets	
• Prohibits revaluation of all long- lived assets	• Costs included in cost of the asset if future economic benefits probable and can be reliably measured (EY 2013)	• Requires revaluation to fair value on a regular basis (Mirza & Ankarath 2012).
• Impairment expenses must be recognized in current income		• Impairment expenses must be recognized in n profit and loss (PwC 2014c)
• Once a long- lived asset has been impaired, it cannot be re- written up (Mirza & Ankarath 2012)		• Can be written up not only to historical value, but above if fair market value is above (profits taken to current profit)
	Financial Instruments	
• Defined as instruments with characteristics of both debt and equity	• Must be classified into specific categories to measure instruments	• Focuses on the contractual obligations (EY 2013)

• Categories: held- for- trading, available- for sale, and held- to- maturity (KPMG 2013) • Do not include equity securities not quoted on an active market	• clarify when recognized or derecognized in financial statements • Derivatives must be recognized on balance sheet • Detailed disclosures on notes for financial instruments (EY 2013)	• Categories: fair value through profit loss, loans and receivables, held- to- maturity, or available- for- sale
	Leasing Guidance	
• Applies only to property, plant and equipment under U.S. GAAP (KPMG 2013) • Capital lease considered any lease with either a bargain purchase option or a transfer of ownership to the lessee • Test to determine lease classification criteria • Classified as operating lease if capital lease requirements not met (Mirza & Ankarath 2012)	• Party bearing risks and rewards of ownership of the leased property to recognize asset and corresponding obligation • For operating leases, rental income recognized in a straight- line basis over the lease term and asset is depreciated by lessor (EY 2013)	• Applies to property, plant, and equipment and other assets with some exceptions • Land purchase is considered a separate transaction under IFRS (EY 2013). • No test for lease classification (Mirza & Ankarath 2012) • Lease a finance lease if risks and rewards from use of the lease are transferred to the lessee (PwC 2014c)
	Income Taxes	
• Measurement of deferred tax asset based on book recognition of compensation cost. • Changes in a stock price do not affect the deferred tax asset, but affect the future tax deductions (KPMG 2013) • Deferred tax assets/ liabilities can be classified as either current or non-current • Based on current tax rates or passed but not enacted rates	• Entities required to account for both current tax effects and expected future tax consequences of events that have been recognized • Do not recognize deferred taxes for temporary differences from non- deductible goodwill (EY 2013)	• Measurement of deferred tax asset in each period is based on an estimation of future tax deduction (PwC 2014c) • Excess in tax benefit is recorded in income statement up to the amount of actual benefit with the remainder affecting the equity statement • Deferred tax assets/ benefits can only be classified as non-current (EY 2013) • Allows basis for current tax rates only
	Revenue Recognition	
• Customer rewards programs with goods given in the future allow both multiple-	• Recognition tied to completion of earnings process and realization	• Multiple- element costing model only (PwC 2014c)

element accounting and incremental cost model • Percentage- of- completion preferred, but completed- contract model also allowed • In percentage- of- completion, allows revenue and gross- profit approaches	of assets from completion (EY 2013) • Converged standard on revenue recognition, *Revenue from Contracts with Customers*, to be put into effect by each company's yearend in 2017 (PwC 2014c)	• Prohibits completed- contract model (EY 2013) • Prohibits gross- profit approach

B. Table 2: Examples of Overt Options in IFRS, 2011*

IAS 1	• No statement requirements for statements of financial position or comprehensive income (paras 79 and 82) • Permission to show comprehensive income in two statements (para 25)
IAS 2	• FIFO or weighted average for the determination of the cost of inventories (para 25) • Marking to market allowed for inventories of commodity broker- traders (para 3)
IAS 7	• Net basis allowed for cash flow statement (para 21) • Choice of classification for interest and dividend flows (para 31)
IAS 16	• Cost or fair value measurement basis for classes of property, plant, and equipment (para 29)
IAS 19	• Actuarial gains or losses can be taken (a) immediately to OCI, (b) immediately to full profit and loss, (c) to profit and loss over the remaining useful lives of the employees in the plan, or (d) to profit and loss faster than that (paras 92-93A)
IAS 20	• Asset grants can be shown as a deduction from the asset or as deferred income (para 24)
IAS 27	• In parent statements, subsidiaries can be shown as cost or available- for-sale investments (para 28)
IAS 28	• In investor statements, associates can be shown at cost or as available- for-sale investments (para 35)
IAS 31	• In group statements, a choice of proportional consolidation or equity accounting for joint ventures entities (para 30) • In venturer statements, joint ventures can be shown at cost or as available-for- sale investments (para 46)
IAS 38	• Cost or fair value measurement for some types of intangible assets (p. 72)
IAS 39	• Choice of cost basis or marking to market for some financial assets and liabilities (para 9). (Other choices are also available in IAS 39 or IFRS 9).
IAS 40	• Permission to classify a property held under an operating lease as an investment property (para 6) • Entity- wide choice of cost or fair value as measurement basis of investment property (30)
IFRS 3	• For measurement of a non- controlling interest in an acquiree, a choice of fair value or the share of the acquiree's net assets (para 19)

*Adapted from Nobes, C. & Parker R. (2012). *Comparative International Accounting* (12th ed.) Essex, England: Pearson Education Limited, p. 165

C. Table 3: Examples of Covert Options or Vague Criteria in IFRS, 2011*

IAS 1	• Determination of whether a liability is current on the basis of the expected date of settlement or purpose of holding (para 60)
IAS 8	• The determination of materiality for various purposes (para 5)
IAS 11	• Use of percentage of completion method only if the outcome of a contract can be estimated reliably (para 22)
IAS 12	• Recognition of a deferred tax asset for a loss carryforward only if future taxable profit is probable (para 34) • Recognition of a deferred tax liability on unremitted profits from subsidiaries only if dividends are probable in the foreseeable future (para 39)
IAS 17	• Lease classification based on 'substantially all the risks and rewards' with no numerical criteria (para 8)
IAS 21	• Determination of functional currency based on a mixture of criteria (paras 9-12)
IAS 23	• Cessation of capitalization of borrowing costs when 'substantially all' the activities to compare the asset are complete (para 22)
IAS 28	• Identification of an associate on the basis of 'significant influence' (para 2)
IAS 36	• Identification of an indication of impairment based on a mixture of criteria (paras 12-14)
IAS 37	• Recognition of a provision based on probability of outflow of resources (para 14)
IAS 38	• Capitalization of development costs when all of various criteria are met (para 57) • Amortization of intangible assets only if useful life is assessed as finite (para 88)
IAS 39	• Estimation of hedge effectiveness as a condition for use of hedge accounting (para 88)
IAS 40	• Use of cost basis, despite entity- wide choice of fair value, for an investment property whose fair value cannot be measured reliably (para 30)
IAS 41	• Use of cost basis for a biological asset whose fair value cannot be measured reliably (para 30)
IFRS 3	• Identifying the acquirer in a business combination presented as a merger of equals (para 6)
IFRS 5	• Treatment of assets as held- for- sale if expected to be sold within a year (para 8)
IFRS 8	• The determination of reportable segments based on a mixture of factors (para 11)
IFRS 10	• Identification of a subsidiary on the basis of 'power over an investor (para 7)

* Adapted from Nobes, C. & Parker R. (2012). *Comparative International Accounting* (12th ed.) Essex, England: Pearson Education Limited, p. 167.

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