

## SOME ISSUES ABOUT THE TRANSITION FROM U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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*ABSTRACT: The ultimate goal of a move to IFRS International Financial Reporting Standards is the rigorous application of a single set of global accounting standards, which will produce high-quality, transparent financial information to help investors and other stakeholders in the world's capital markets make economic decisions based on financial data that is easily and directly comparable. Many believe this is a necessity for a vital and growing global economy. In this article the authors tried to present the issue of convergence between US Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). Adoption of IFRS (International Financial Reporting Standards) in the US undoubtedly would mark a significant change for many US companies. It would require a shift to a more principles-based approach, place far greater reliance on management (and auditor) judgment, and spur major changes in company processes and systems.*

*Key words: IFRS, US – GAAP, SEC, IASB, FASB*

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### Introduction

Importance of International Financial Reporting Standards (IFRS) has greatly increased in recent years. International Financial Reporting Standards (IFRS) is a set of accounting standards, developed by the International Accounting Standards Board (IASB), an independent accounting standards body, that differ from the United States Generally Accepted Accounting Principals (GAAP) that historically have been used for reporting financial information in domestic public and private companies and other organizations. Today, more than 100 countries use IFRS for public reporting purposes. The SEC has issued a roadmap as to how US companies will forge ahead to report using IFRS. Both IFRS and US GAAP share the same general principles and conceptual framework. However, US GAAP is more rules based, whereas IFRS is more principles based. Perhaps the greatest difference is that IFRS provides much less overall detail. Most of the changes that will be encountered between US GAAP and IFRS will not necessarily impact the reporting at the hotel property level. US companies will spend between 0.125% and 0.13% of their revenue on making the transition. The SEC will be deciding in 2011 whether to require US companies to report using IFRS. Taking a proactive approach and making preparations for a change would be a prudent

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decision. A change from US GAAP to IFRS is not only a financial reporting one, but in many cases a change in management as key performance indicators, employee and executive compensation, investor relations and legal issues will potentially be affected by the change.

Revolutionary changes are occurring in accounting and financial reporting in the US and other countries. Until 2008, the Securities and Exchange Commission (SEC) in the US required for financial reporting by companies traded in the US stock market, that their financial statements either follow US generally accepted accounting principles (GAAP) or be reconciled to US GAAP. The SEC did not accept the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Until the early 2000s, securities commissions in most countries took the same basic position toward IFRS as did the United States SEC.

Starting in the mid-2000s, a series of events, notably in the US and European Union, greatly advanced worldwide acceptance of IFRS. This study seeks to determine whether IFRS are an unstoppable juggernaut for US and global financial reporting. To make this determination, a review of recent events includes a longitudinal analysis of adoption of IFRS by the countries of the world. Also, perspectives about IFRS held by top corporate accounting officers among Fortune 500 business firms will be obtained and evaluated.

### **Reasons to move to a global IFRS**

Many questions are linked by the transition from the Generally Accepted Accounting Principles (GAAP) to IFRS.

*- Why are IFRS attractive as the ultimate global standard?*

The IFRS are developed by the International Accounting Standards Board (IASB) in London in collaboration with the Financial Accounting Standards Board (FASB) and other global accounting standard-setters. As principles-based system, IFRS can allow issuers to reflect more fully the economic substance of transactions that may be unique to their industry, compared with a prescriptive, rules-based system such as GAAP.

*- Are there potential disadvantages to converging standards?*

Some investors feel a principles-based system provides too much management discretion. Others fear losing information contained in extensive disclosures under US GAAP and SEC regulations. Also, IFRS is arguably less robust than GAAP in areas such as lease accounting, principles of revenue recognition and accounting for the insurance industry.

Second, implementation could confuse investors if it were phased in. The SEC proposals allow certain US firms to use either IFRS or GAAP or both, forcing investors and issuers to learn and apply two standards simultaneously. The SEC proposal may also mistakenly assume that firms will voluntarily commit to significant IFRS development costs in the absence of a mandated deadline. Another potential downside is that IFRS may not in fact improve international comparability if firms and regulators apply principles-based standards differently. There is no single enforcement body to ensure IFRS are interpreted and applied in a uniform fashion.

A move to IFRS also presents a tremendous opportunity. Moving to an entirely new accounting structure ultimately might enable companies to streamline reporting processes and reduce compliance costs. While there are differences between US GAAP and IFRS, the general principles, conceptual framework and accounting results between them are often the same, or similar, for most commonly-encountered transactions. With IFRS likely to arrive in the near - rather than distant - future, affected utilities should consider the implications of IFRS and start planning now. The resources needed and the impact on the organization will be far-reaching. But with proper strategic planning, benefits can be substantial.

The US Securities and Exchange Commission (SEC) have proposed rules ultimately requiring US issuers to use International Financial Reporting Standards (IFRS) rather than the US Generally Accepted Accounting Principles (GAAP).

*- Does a global accounting standard benefit investors?*

As markets become increasingly global, it is important to be able to rely on financial reporting and make international comparisons, both of which require a uniform set of high quality accounting standards. Investors also stand to benefit from a single financial "language" with which to interpret corporate activities. IFRS is currently required for all domestic listed entities in 85 jurisdictions and allowed in 113 jurisdictions.

*- What are the possible barriers to implementing uniform global standards?*

First, local standards such as US GAAP need to be harmonized with IFRS. The IASB and FASB are working on a project to last until the end of 2011 to address the most important technical differences.

Second, implementation could confuse investors if it were phased in. The SEC proposals allow certain US firms to use either IFRS or GAAP or both, forcing investors and issuers to learn and apply two standards simultaneously. The SEC proposal may also mistakenly assume that firms will voluntarily commit to significant IFRS development costs in the absence of a mandated deadline. A further challenge to convergence is politicization of local standards. For example, the application and enforcement of IFRS standards in the European Union, which adopted IFRS in 2005, have been varied and influenced by local interests.

*- Is there an alternative approach for implementation?*

Another approach is to complete the harmonization of GAAP and IFRS before converging to a single standard and selecting a single adoption date for all firms. This approach could reduce confusion and complexity. It might also provide time for investors and stakeholders to move smoothly to a single standard.

It is also important to establish a "road map" for ultimate adoptions for issuers, investors and other stakeholders.

*- How will investors adapt to converged standards?*

Learning a new "language" for accounting and reporting certainly requires time and effort for education. Investors, issuers, auditors and regulators will all need to learn and understand IFRS, which will require training across the board.

*- What is a reasonable time frame for adoption?*

Requiring adoption by 2014 is reasonable. It allows time for reporting standards to converge and for the necessary training and education. An interim period of allowing a dual system now rushes matters. Given the vital role financial statements play in the world's capital markets, it is advisable to adopt a more deliberate, less experimental pace that ensures everyone is well-prepared. In April 2004, FASB and the International Accounting Standards Board created a joint project on financial statement presentation. The project is part of the memorandum of understanding between the two bodies that set out a road map for convergence between IFRS and US GAAP. The goal is to create a common standard for the form, content, classification, aggregation and display of line items on the face of financial statements. The project applies to public and private business entities, but not to nonbusiness entities such as not-for-profits or defined-benefit plans.

The question is seemingly no longer "if," but "when" the United States will adopt International Financial Reporting Standards (IFRS). In a forum held this past June at Baruch College in New York City, the Financial Accounting Standards Board (FASB) addressed the question of when and how the United States would move to IFRS. Participants in the forum included top officials from the FASB, the Financial Accounting Foundation (FAF), the Financial Accounting Standards Advisory Council (FASAC), the International Accounting Standards Board (IASB), the SEC, the AICPA, the Financial Executives Institute (FEI), the Institute of Management Accountants (IMA), the CFA Institute, the Public Company Accounting Oversight Board (PCAOB), and the American Accounting Association (AAA). Additional participants included individuals representing financial statement users, small and large companies, auditors, regulators, educators, and other parties that might be affected if there is a move from U.S.

Among the issues discussed at the forum included: whether U.S. GAAP should ultimately converge with IFRS and, if so, how and when; how to prepare the United States for a shift to IFRS; accounting education and professional certification; regulatory and tax issues; the potential effects on private companies and not-for-profit entities; and the future role of the FASB. SEC Chief Accountant Conrad Hewitt said that one important issue would be whether U.S. companies should have the option of moving to IFRS, and whether this option should be phased in over time, with large companies going first. Several groups, such as the CFA Institute, opposed allowing U.S. companies the option to adopt IFRS, preferring a mandate from the SEC instead. Others recommended giving companies a five-year lead time to adopt IFRS, with a single deadline for adoption. Finally, other groups, such as the IMA, favored the optional approach, but with a shorter, three-to-five-year timeframe to get acquainted with IFRS.

Subsequent to the roundtable, in August 2008, the SEC voted to publish a proposed road map that could lead to the use of IFRS by U.S. companies beginning in 2014. The SEC plans to make a decision in 2011 on whether the adoption of IFRS is in the public interest and would benefit investors. The proposed multiyear plan sets out several milestones that, if achieved, could lead to the use of IFRS by U.S. companies in their SEC filings.

*- What Has Prompted Convergence Toward IFRS?*

The issue of convergence between U.S. GAAP and IFRS has been developing for some time. Issued in August 2007, SEC Concept Release 33-8831 addressed the question of whether U.S. companies should be allowed to prepare their financial statements in accordance with IFRS. An SEC ruling issued in December 2007 allows foreign private companies to use IFRS without reconciling to U.S. GAAP. These actions have raised the importance and the urgency of this issue. FASB Chairman Bob Herz stated at the June 2008 FASB forum that the organization faces the challenge of "riding two horses at the same time" until convergence is achieved. To avoid this problem, the FASB has indicated in its response to the SEC concept release that investors would be better served if all U.S. public companies were to use a common set of international accounting standards, which would be best accomplished by moving U.S. companies toward IFRS. Thus, a move to IFRS appears to be inevitable.

Nevertheless, there are a number of challenges to the adoption of IFRS, and thus the question arises:

*- What's the hurry? Shouldn't we take the time to get it right?*

As various countries around the world have moved to IFRS, one particular issue often comes up:

*- What about small and medium-sized enterprises?*

The IASB has addressed this matter by issuing an exposure draft of a proposed IFRS for small and medium-sized enterprises (SME). The IASB also develops and publishes a separate standard intended to apply to the general purpose financial statements of, and other financial reporting by, entities that in many countries are referred to by a variety of terms, including small and medium-sized entities (SME's), private entities, and non-publicly accountable entities. That standard is the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SME's).

Small and medium-sized entities are entities that:

- do not have public accountability, and
- publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

On July 2009 the International Accounting Standards Board (IASB) issued an International Financial Reporting Standard (IFRS) designed for use by small and medium-sized entities (SME's). The standard is a result of a five-year development process involving extensive consultation with SME's worldwide.

The IFRS for SME's responds to strong international demand from both developed and emerging economies for a rigorous and common set of accounting standards for smaller and medium-sized businesses that is much simpler than full IFRS's. In particular, the IFRS for SME's will:

- provide improved comparability for users of accounts;
- enhance the overall confidence in the accounts of SME's;
- reduce the significant costs involved of maintaining standards on a national basis;
- also provide a platform for growing businesses that are preparing to enter public capital markets, where application of full IFRS's is required.

The IFRS for SME's is separate from full IFRS's and is therefore available for any jurisdiction to adopt whether or not it has adopted the full IFRS's. It is also for each jurisdiction to determine which entities should use the IFRS for SME's.

The IFRS for SME's is a self-contained standard of about 230 pages tailored for the needs and capabilities of smaller businesses. Many of the principles in full IFRS's for recognising and measuring assets, liabilities, income and expenses have been simplified, topics not relevant to SME's have been omitted, and the number of required disclosures has been significantly reduced. To further reduce the reporting burden for SME's, revisions to the IFRS for SME's will be limited to once every three years. The IFRS for SME's even includes its own "framework" in section 2 Concepts and Pervasive Principles. The IFRS for SME's only allows, but does not require, its users to refer to full IFRSs when addressing financial instruments.

In May 2008, the IASB reconsidered the SME exposure draft in light of comment letters and field tests. Among the matters decided by the IASB were the following: The title of the standard will be changed to "International Financial Reporting Standard for Private Entities," with private entities being defined as companies that do not have public accountability (in the United States, essentially a nonpublic company). Thus, the size of the business will not be a factor in determining whether a company uses simplified IFRS. The only deciding factor will be whether the company is private or public.

The standard will be stand-alone, with no reference to the main body of IFRS. Thus, there would be two categories of GAAP - one for public companies and one for private companies. All accounting options in the full set of IFRS would be available to private entities. The IASB standard will not address the following topics: lease accounting, share based payments, segment information, earnings per share, and interim reporting. Any company with publicly traded shares would not be allowed to use simplified IFRS.

Any entity whose primary business is holding money on a fiduciary basis would not be allowed to use simplified IFRS.

A subsidiary of a company using full IFRS would have to provide all of the disclosures required by full IFRS.

Simplified IFRS will not prescribe financial statement formats, titles, subtotals, minimum line items, sequencing, or note disclosures; however, the standard will require a statement of comprehensive income.

Unless the requirement to move from US GAAP to IFRS applies only to publicly traded companies, there will be two GAAPs: a big GAAP and a little US GAAP financial accounting standards setters have avoided this problem for more than 50 years. Typically, there is no difference between GAAP for big companies and GAAP for small companies. In certain cases, nonpublic companies are exempted from several GAAP requirements (e.g., earnings per share and segment reporting), but except for these relatively limited cases, there are no significant differences between big GAAP and little GAAP. In contrast, pursuant to IFRS, there will be an explicit distinction between full IFRS and the simplified IFRS applicable to private companies. This may be an inevitable result of moving to IFRS, but it will be something new to US accounting standards. Accounting practitioners, regulators, creditors, educators, and even law court judges will need to

adjust their thinking regarding the idea that GAAP will no longer mean "generally accepted" accounting principles. Instead, there will have to be an explanation concerning which set of accounting principles applied in a particular case, not-for-Profit and Governmental Entities.

While some countries have decided that IFRS should apply to not-for-profit organizations, IFRS is not actually intended to apply to such entities. If the SEC mandates that US companies move to IFRS, there will probably be no similar requirement that not-for-profits move to IFRS. Therefore, most not-for-profits will not make the switch. As in the case of small and medium-sized businesses, there will be a different type of GAAP for not-for-profit organizations. Also, there is no IFRS for governmental entities, even though in some countries, such as Australia and the United Kingdom, there has been an effort to implement IFRS for both not-for-profit and governmental entities. If the SEC requires U.S. public companies to move to IFRS, this would not change the status of the Governmental Accounting Standards Board (GASB) or GASB's responsibility to set GAAP for governmental entities. The previous coordination among the staffs of the FASB and the GASB has led to improvement in accounting for both not-for-profit entities and governmental entities. If the FASB is no longer responsible for setting U.S. GAAP, the question arises whether GAAP for not-for-profits will continue to be established by the FASB. One vision of the future would be a tripartite division of GAAP-IFRS for publicly traded companies, simplified GAAP for small and medium-sized companies, and another sort of GAAP for not-for-profit and governmental entities. In essence, there would no longer be a uniform concept of GAAP, but a GAAP as applied to different types of entities.

*- What about tax issues?*

There are a number of differences between IFRS and U.S. GAAP that may materially affect financial reporting and tax planning. Some examples include: revenue recognition, lease accounting, asset impairments, financial instruments, hedging activities, and stock-based compensation. U.S. tax law does not necessarily correspond with U.S. GAAP. A move to IFRS will therefore require an analysis of tax implications, including a determination whether making the tax method conform to the book method will even be allowed. Tax accounting methods do not automatically change because the financial accounting method changes. The consent of the IFRS commissioner must often be obtained in order to change an accounting method.

While not the most important conceptually, perhaps the stickiest problem deals with last-in, first-out (LIFO) accounting. Simply put, under IFRS, companies are prohibited from using LIFO. But under US law, US companies must use LIFO in their published and audited financial statements to obtain the tax benefits of LIFO. The Financial Accounting Standards Board and the US Securities and Exchange Commission are fully aware of this problem and are taking steps to mitigate it. One suggestion would be for Congress to change the tax law and permit use of LIFO for taxes and repeal the conformity requirement. Under both US GAAP and IFRS all research costs must be expensed as incurred. Development costs, however, can be capitalized under IFRS if they meet the criteria for an intangible asset. With respect to valuation-related issues, adoption of IFRS will probably require a new mindset by financial executives regarding reported income

Last in, first out (LIFO) accounting will be a thorny issue: IFRS does not permit LIFO, but U.S. tax law requires LIFO accounting for financial reporting purposes, if LIFO is elected for tax purposes. Thus, unless the LIFO conformity requirement is changed through federal legislation, U.S. companies using LIFO will face a tax liability if they move to IFRS.

Conversion to IFRS is also likely to have an impact on tax planning and cash repatriation from foreign subsidiaries. There will be implications for foreign tax credit and Subpart F calculations. There will also be an impact on earnings and profits computations in order to maintain consistency with accounting methods. The ability to make distributions from foreign affiliates may also be affected to the extent that IFRS results in a change in the distributable reserves of a subsidiary. In countries where statutory accounting forms the basis for defining debt versus equity for purposes of calculating allowable deductions for interest and dividend distributions, the use of

financing structures will need to be reviewed. In addition, in some countries, the characterization of a transaction as a lease depends upon the accounting for tax purposes. The use of fair value measurements is also central to IFRS. For example, under IFRS, companies can elect to measure property and equipment at fair value, and financial instruments are required to be carried at fair value. These measurement concepts can have a significant impact on debt-to-equity and other balance-sheet ratios, resulting in limitations on the deductibility of interest. Another issue involves the question of uncertain tax positions. The IASB has indicated that it will not adopt FASB Interpretation 48 (FIN 48), Accounting for Uncertainty in Income Taxes. This means that U.S. companies moving to IFRS may need to change the way they account for uncertain tax positions. IFRS does not prescribe a specific approach to measurement of uncertain tax positions, and the IASB has decided to move to a model with no recognition threshold for uncertainties and measurement using weighted average probability. This is less prescriptive than FIN 48.

Consequently, adoption of IFRS would cause all current LIFO reserves – amounting to billions of dollars - to immediately become taxable income. This alone represents a prohibitive cost barrier.

The Financial Accounting Standards Board and the U.S. Securities and Exchange Commission are fully aware of this problem and are taking steps to mitigate it. One suggestion would be for Congress to change the tax law and permit use of LIFO for taxes and repeal the conformity requirement. Given the need for tax revenue, however, a more likely scenario would be a 10-year transition. On a present-value basis, this would mitigate but not eliminate the problem. No matter how any LIFO spread is handled, companies currently using LIFO will likely have significant out-of-pocket cash cost on adopting IFRS. Even 'Fair Value' Definition Differs When FASB issued its Financial Accounting Standard No. 157, Fair Value Measurements; it introduced a unique definition of fair value, in part, to distinguish it from the more common fair-market value definition. (FEI wrote to FASB, before issuance of SFAS 157 regarding the new definition.). The new definition of fair value differs from fair-market value in two critical areas. First, rather than dealing with an exchange between a "willing buyer and willing seller," as used in the fair-market value definition, fair value requires an exit approach, in other words, you only look to see what you could sell an asset for, even if you just bought it yesterday.

The second difference deals with a requirement that the fair value be determined on the basis of what some theoretical market participant might pay, rather than looking at an actual transaction.

The best way to comprehend the significance of these two points is to consider an art auction. Suppose the winning bidder for a Picasso painting won at \$30 million. The last competitor had dropped out at \$29 million. Under the SFAS 157 fair value definition, the buyer would have to take an immediate impairment charge of \$1 million. He would value the Picasso only at what he could sell it for; the only market participant has already signaled that he is unwilling to pay more than \$29 million.

The members of the International Accounting Standards Board so far have not adopted the FASB definition of fair value and the jury is out as to what will ultimately be decided. Meanwhile, the definitions of fair value continue to differ.

### **Challenges of Moving to IFRS**

There are some aspects of IFRS which do not exist in US GAAP. For example, International Accounting Standard 41 (IAS 41) prescribes the accounting treatment for agricultural and biological assets. IAS 41 requires measurement of biological assets at fair value, up to the point of harvest. For example: A fish farm in Norway must apply a fair value standard to its salmon stock during the period that the salmon grows from an egg to a full-grown fish ready for harvesting. The increase in value is reported in the statement of profit and loss. The question is: What is the value of a half-grown salmon? Likewise, a forest products company in Finland must apply a fair value standard to

its trees that grow and reach maturity over a period of 20 or more years. If the SEC decides to move from US GAAP to IFRS, it is likely that there will be a certain degree of confusion and incomprehension regarding this standard. IFRS is often considered to be more principles-based than US GAAP. While this may be true, a principles-based approach poses some problems. For example, IAS 17, which deals with lease accounting, specifies that: "At the commencement of the lease term, lessees shall recognize finance leases as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease." IAS 17 also specifies that: "A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership." There is no specific guidance regarding the defining characteristics of a lease that "transfers substantially all the risks and reward incidental to ownership." Under such a standard, U.S. auditors may find it difficult to persuade their clients that they must record a lease as a finance lease.

### **A difficult transition**

While it may not be difficult for a multinational enterprise to move from US GAAP to IFRS in the near future, a point echoed by participants in the June FASB forum, small and medium enterprises, agricultural enterprises, not-for-profit organizations, and governmental entities may find the challenge of moving to IFRS to be insurmountable. One of the results of moving from US GAAP to IFRS for publicly traded companies may be that, for the first time in the history of U.S. accounting standards setting, there will be multiple types of GAAP. This may not be a difficult problem to deal with, but practitioners, regulators, lenders, courts, and educators will need to come to grips with the fact that GAAP will no longer be "generally accepted" accounting principles. Secondly, in certain areas, such as the fair value measurement of agricultural products, there is currently no US GAAP in effect.

- *What will we make of this change and will it be readily applied to the U.S. farming industry?* Finally, IFRS is considered to be more principles-based, but in a litigious environment such as the United States, a principles based approach may often lead to lawsuits.

- *Will U.S. auditors be willing to make firm judgments about the gray areas of accounting without the authority of U.S. GAAP standing behind them?*

One vision of the future would be a tripartite division of GAAP/IFRS for publicly traded companies, simplified GAAP for small and medium-sized companies, and another sort of GAAP for not-for-profit and governmental entities.

IFRS has fewer bright lines and less interpretive and application guidance than does US GAAP (Generally Accepted Accounting Principles). Companies will need to consider carefully the economic substance of their transactions and then apply the principles embodied in IFRS to that substance. Arguably, doing so might enable a closer alignment with underlying business objectives. Many financial professionals in the power and utility industries today are aware of IFRS, which presently is used or under consideration in every major financial market around the world. There is a growing recognition, both in the United States and internationally, that a single set of high-quality global accounting standards offers teal benefits. IFRS seems increasingly likely to provide that single set of standards.

### **Literature review**

Nations of the world have engaged in global commerce since the beginning of recorded history. If international trade occurs, accounting and financial reporting are useful for recording and reporting the results. Global operations are becoming more important to all types of business firms. Many firms are increasing their international operations and the number of countries in which they do business. A greater number of business firms are now providing products and services to customers around the world.



Information asymmetry between management and external stakeholders is increased for firms functioning in a complex environment. Multinational firms carry on business in a more complex environment than strictly domestic firms (Runyan and Smith 2007). Globalization of business and capital markets has led to an economic environment in which uniform procedures for financial statement preparation would benefit investors, lenders, financial analysts, accountants, and auditors (Gaspar et al. 2006). Uniformity in accounting standards helps provide comparability of financial statements among companies in diverse country locations. The International Accounting Standards Board (IASB) is endeavoring to develop harmonized financial accounting standards to satisfy worldwide demands. Companies engaged in international business encounter a variety of challenges as a result of their global operations. Challenges result from different cultures, language differences, different legal systems, political differences, different operating environments, and different accounting and financial reporting standards. Much past research examines the effect of culture on accounting and business. Some representative recent and older studies include Karahanna et al. (2005), Patel (2004), Blanco and Osma (2004), Davison and Martinsons (2003), Hofstede et al. (1990), Hofstede and Bond (1988), and Hofstede (1984). Karahanna et al. (2005) consider cultural levels and their impact on individual behavior. Patel (2004) examines theoretical strengths and weaknesses of prior research regarding accountants' values and judgments. Blanco and Osma (2004) review differences between US GAAP and International Financial Reporting Standards, by looking at Form 20-F reconciliations in the period 1995-2001. They find that significant differences exist, but that international standards and US GAAP appear to be converging. Hofstede (1984) provides foundational work concerning the effect of culture on business activities. Herrmann and Hague (2006) indicate that international accounting standards and US GAAP increasingly influence each other. They note that the US Financial Accounting Standards Board and the IASB entered into a memorandum of understanding formalizing their commitment to converge on a single set of accounting standards in 2002. This convergence effort makes it important for US accountants to understand how the conformance of a US accounting standard to an international standard can significantly affect US companies.

Fontes et al. (2005) analyzed three methods for measuring success attained in achieving convergence between two sets of accounting standards. They reviewed a measurement method based on the concept of Euclidian distances. They proposed two better measures of assessing progress of national accounting standards setting bodies in converging their standards with IFRSs. For illustrative purposes they measured convergence of national standards in Portugal with international standards over the period 1977-2003. Mir and Rahaman (2005) evaluated the decision of the Bangladeshi government and accounting profession to adopt international standards. These researchers used archival data and interviews of key actors, including preparers and users of financial reports, members of the SEC, and members of professional accounting bodies. Results indicate that institutional legitimization is a key factor that drives the decision to adopt international standards.

The International Organization of Securities Commissions (IOSCO) and the individual securities commissions, which make up the IOSCO, play a key role in determining worldwide acceptance of international standards. Over 60 securities regulatory agencies worldwide comprise the IOSCO. The US Securities and Exchange Commission is a member of the IOSCO. A major objective of the IOSCO is to facilitate cross-border securities offerings and multiple listings without compromising the financial statement information provided (Gaspar et al. 2006). IASB member Patricia L.O'Malley (2004), in a speech to the International Accounting section of the American Accounting Association, cited lower financial statement preparation costs as a benefit of reducing differences in accounting standards among nations. Resolving differences in multiple GAAPs can be a substantial cost to multinational business firms. Multinational firms with tens and even hundreds of subsidiaries must translate host country financial statements into home country statements. The process of consolidating parent and subsidiary statements is a massive and complex

process. In a pivotal event in 2005, the European Union (EU) required use of IFRS in consolidated financial statements of all EU listed companies, about 9,000 companies. Approximately 400 EU firms are traded on US markets. Besides the EU countries, many other countries have adopted IFRS almost word for word as their national GAAP. Countries adopting IFRS include: Australia, New Zealand, South Africa, Singapore, Hong Kong, and the Philippines. Some countries that have stopped developing a national GAAP and just use IFRS include: Bahrain, Croatia, Costa Rica, Cyprus, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, Jamaica, Kenya, Malta, Mauritius, Nepal, Oman, Panama, Tanzania, Tajikistan, Trinidad, and United Arab Emirates (Praeter 2003).

In December 2007, the Securities and Exchange Commission revised its rules so that non-U.S. companies will be permitted to include in their SEC filings financial statements without reconciliation to US GAAP if the financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB). This is a landmark event in US financial reporting, as acceptance of IFRSs removes a major obstacle for foreign private issuers to enter and to remain in the US markets (Deloitte Touche Tohmatsu 2008, Gibson, Dunn and Crutcher 2008, Bergman et al. 2008).

The SEC seems on the verge of accepting IFRS, not just for non-US companies trading in the US stock market but for US-based companies, as well. Among those calling for acceptance of IFRS are John Thain from the New York Stock Exchange and former Federal Reserve Chairman Paul Volcker (White 2007). FASB Chairman Robert Herz has expressed his expectation that US companies would eventually be required to follow a single accounting standard, which would be IFRS (Leone 2007).

The ongoing globalization and resulting complexity of business makes accounting financial reporting a technically demanding and oftentimes daunting process. Across countries, accounting standards diverge as a result of unique cultural, political, legal, and economic factors. Effective and efficient functioning of the global marketplace necessitates uniformity in accounting standards. At the current time, businesspersons, financiers, and investors must take into consideration the differences that exist. Such differences substantially curtail the development of international business activity.

Harmonization of standards has the potential of benefiting economic activity around the globe (Gaspar et al. 2006). As far back as the beginning of recorded history, peoples of the world have participated in global commerce. As long as international trade has occurred, accounting is useful for recording and reporting the results. Multinational operations are increasingly important to all types of business firms. Numerous multinational firms are either expanding international operations, or becoming part of other multinational firms via mergers or acquisitions. Consequently, more firms than ever before are providing products and services to customers around the globe.

The internationalization of business and capital markets has resulted in an economic environment in which uniform procedures for financial statement preparation would benefit investors, lenders, financial analysts, accountants, and auditors (Gaspar et al. 2006). Uniformity facilitates comparability of financial statements among firms of diverse country locations. The International Accounting Standards Board (IASB) is endeavoring to develop harmonized financial accounting standards to satisfy worldwide demands. Numerous multinational firms are required or voluntarily choose to follow international standards in preparing their financial reports.

2008 NOV 3 - ([VerticalNews.com](http://VerticalNews.com)) -- Many U.S. companies have not begun preparations for the possible transition from the current Generally Accepted Accounting Principles (US GAAP) to International Financial Reporting Standards (IFRS), according to a survey conducted by Protiviti Inc., a global business consulting and internal audit firm. The survey also finds a number of challenges for companies in making the conversion to IFRS, including the expense of upgrading IT systems to finding the right talent to make the transition smooth and efficient.

Throughout the world, regulatory agencies and investors have sought out a consistent worldwide

standard for financial reporting, resulting in the U.S. Securities and Exchange Commission (SEC) publishing a proposed roadmap for large corporations to switch to international accounting standards by 2014. Under this proposed plan, more than 100 companies may be able to start following IFRS with their 2009 financial statements. Now is the time for companies to begin determining the steps they will need to take to ensure that their conversion to IFRS is as seamless and cost-effective as possible," said Christopher Wright, managing director with Protiviti and one of the firm's global leaders of IFRS services. "Conducting a diagnostic review of everything from financial policies and disclosures to data flows is strongly recommended now to scope out all the possible ways a company and its finance function could be impacted."

As head of the accounting profession's largest association, Melancon serves as a member of the AICPA's delegation to the International Federation of Accountants, whose broad objective is the development and enhancement of a coordinated worldwide accountancy profession with harmonized standards. Melancon says the interconnected financial markets underscore the need for consistent standards and predicts the move to IFRS in the United States will likely be led by the Securities and Exchange Commission (SEC), which began encouraging an international set of standards in 1988. Although the commission is likely to undergo changes under a new presidential administration, it recently called for a roadmap that could lead to IFRS being used in the United States by 2014. "The world's capital markets have long searched for a single set of high quality accounting standards that can be used anywhere on earth," notes current SEC Chairman Christopher Cox. "The proposed roadmap is cautious and careful. It's a proposed multi-year plan."

### **Research methodology**

The main objectives of this paper refers to the issues related to the US transition to IFRS, whole these issues proposed by some authors being founded in a brief review of the literature written on the topic till 2009. To achieve the objectives that were proposed, we analyzed over 20 academic articles indexed in different international database that were available and also the site of IASB.

In general, IFRS standards are broader than their US counterparts, with limited interpretive guidance. While US standards contain underlying principles as well, the strong regulatory and legal environment in US markets has resulted in a more prescriptive approach - with far more "bright lines," comprehensive implementation guidance and industry interpretations. The International Accounting Standards Board (IASB) generally has avoided issuing interpretations of its own standards, preferring instead to leave implementation of the principles embodied in its standards to preparers and auditors, and its official interpretive body, the International Financial Reporting Interpretations Committee (IFRIC).

In any case, momentum is building for US adoption of IFRS, and conversion no longer appears to be a matter of "if," but more a matter of "when" and "how." For companies that report in multiple jurisdictions, the adoption of a single global set of accounting standards can be a benefit in terms of process standardization and related efficiency gains. Multiple approaches to financial reporting continue to be inefficient and troublesome, and many affected companies strongly support the SECs continued efforts in the US transition to IFRS. The question that power and utility executives and directors need to tackle sooner, rather than later - is how they can maximize the opportunities presented by IFRS and effectively and efficiently deal with any challenges as a result of the conversion. The straightforward answer is to start planning now, dedicate the appropriate management focus and create a project team across all aspects of the company - including the financial accounting and reporting, tax and IT departments - to assess the effort and work toward transition activities. Also, it's never too early to begin educating analysts and investors on how a conversion to IFRS might impact the company's financial results. Now is the time to begin planning for conversion from GAAP to IFRS. The resources needed and the impact on the organization will be far-reaching. But with proper strategic planning, benefits can be substantial.

### **Five steps to implementing**

#### *Step 1: Develop goals:*

The company's management team and board of directors decide how best to present the company's financiers on an ongoing basis. Then, preliminary mapping begins and high-level risk assessments are conducted, outlining the potential impact that IFRS can have on the company's balance sheet, financial reporting and accounting policies, tax liabilities, and contracts and joint venture agreements.

#### *Step 2: Design and planning:*

The transition team validates the conversion recommendations made in Step 1 and evaluates the various options to determine the impact that different financial accounting and reporting policies will have across the enterprise.

#### *Step 3: Solution development:*

New IFRS policies are modeled, and the transition team develops the process and system change requirements that the new guidelines require.

#### *Step 4: Implementation:*

At its heart, implementation is a straightforward change-management effort that includes communication and training, followed by carrying out the agreed-upon approaches. At this step, the transition team can begin to test the new guidelines as implemented and remediate as needed.

#### *Step 5: Post-implementation review:*

This occurs when all key parties- financial accounting and reporting, treasury, tax and others-meet to debrief and identify opportunities for improvement.

These *five steps* might take as long as two or three years from initial diagnostic discussions to post-implementation changes. This period allows for a thoughtful, well-planned transition that increases the long-term benefit of IFRS. Companies that wait-until either the SEC determines a definitive timeline or their competitors accelerate efforts toward transition-might find themselves playing catch-up.

This study reviews International Financial Reporting Standards and how their use worldwide has dramatically increased in recent years. A review of prior research shows that IFRS have the potential to improve the function of capital markets and facilitate economic progress. Based on the longitudinal analysis of adoption of IFRS by the countries of the world, there appears to be significant momentum for eventual adoption of IFRS worldwide, including in the U.S. The U.S. already accepts IFRS for non-U.S. firms traded in the U.S. markets. Eventual acceptance of IFRS for U.S.-based firms seems quite probable. A survey of perspectives about IFRS revealed that top corporate accounting officers are highly favorable to acceptance of IFRS for financial reporting by all companies in all countries, including the U.S. Combining the favorable perspectives of top accounting officers with the increasingly widespread adoption of IFRS in countries around the world, IFRS seem to be an unstoppable juggernaut for US and global financial reporting. Based on this analysis, acceptance of IFRS in virtually all countries, including the U.S., appears imminent, perhaps occurring within the next few years.

Future research could investigate the benefits and problems associated IFRS. Future research could develop a longitudinal analysis of how international standards change over time. In addition, future research could evaluate the economic benefits of using international standards at the micro (corporation) level and macro (national or global) level. Future research could consider whether adoption of international standards leads to easier access by a firm to foreign capital markets, lower cost of capital, and financial transparency.

### **Conclusions**

IFRS, which aims to create a set of common financial reporting benchmarks for companies worldwide, is seeing growing acceptance within the US accounting profession, according to the Washington, D.C.-based American Institute of Certified Public Accountants.

Already, the European Union, Australia, New Zealand, Canada and Israel have accepted IFRS as the standard for publicly held companies; the US Securities and Exchange Commission is currently weighing whether or not the new standards should be made mandatory for US companies.

Fifty-eight percent (58%) of US companies are unprepared to train staff for the transition from US Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS), according to a new survey by Ajilon Finance Solutions and the Institute of Management Accountants (IMA). The survey, which polled approximately 500 finance and accounting professionals as part of IMA's Inside Talk Webinar Series, reveals there is still a high degree of uncertainty among finance and accounting professionals about the transition to IFRS, despite the vast majority (86%) of professionals reporting that they anticipate IFRS conversion having a positive impact on the accounting profession.

Other key findings from Ajilon Finance Solutions' survey reveal: IFRS Expertise Desired: Fifty-two percent (52%) of respondents said their employers want them to have a general awareness about IFRS and convergence, showing strong demand for this set of skills/experience.

Career Worries are Surfacing: The top three concerns of finance employees in relation to the convergence of U.S. GAAP and IFRS are: the impact convergence will have on their future career prospects (58%), that converged standards might be more challenging to apply than current U.S. standards (26%), and that compliance with converged standards might not be enforced consistently by regulators throughout the world (24%).

Employees Want Training: The majority (63%) of employees said their company will pay for the cost of training to get up to speed with IFRS convergence. Most finance employees (61%) prefer Internet-based training in IFRS and convergence as opposed to classroom or other types of training. "Companies cannot wait until the 2014 deadline before training and hiring the staff they need for this transition," said Andrew Reina, practice director for Ajilon Finance Solutions. "We are working with many of our clients now to enable a seamless and efficient transition of staff and resources in order to ensure that their team is fully prepared, trained and comfortable as soon as possible." Employers wishing to improve their staff's transition to the new international accounting standards should take *the following steps*, according to Ajilon Finance Solutions:

- Conduct a comprehensive diagnostic of existing accounting processes, staff and training resources. It is critical that organizations create a baseline assessment to identify any gaps in preparedness. It was recommend identifying an independent source to validate critical migration functions, outline transition costs and perform impartial staff appraisals.
- Appoint a Project Management Officer. Successful implementations are often a direct result of the leaders organizing and managing day-to-day activities. Companies need to designate or acquire a seasoned professional with the critical PMO and accounting expertise to facilitate change management effectively. This liaison should be a single point of contact for the project deliverables and held accountable to the activity timetables.
- Survey finance employees to ascertain appropriate training methods. Training will be a key component during IFRS transition. It is important for companies to identify those training delivery mechanisms specific to their organization. Evaluate feedback from your finance team on what they consider the most effective methods for training. This could include web seminars, classroom sessions, one-on-one training, onsite versus offsite and ongoing training requirements.
- Regularly review IFRS adoption procedures. Once IFRS adoption is complete, continue to review accounting treatments and processes. Conduct periodic best practices assessment to confirm accounting optimization and guidelines. This is also a good opportunity to reassess ongoing training requirements, how competitors are reporting and what additional savings can be generated from an infrastructure standpoint.

The Securities and Exchange Commission (SEC) is aware of the growing global acceptance of IFRS and has taken comments from listed companies, audit firms, investment groups, rating

agencies, the legal community and government agencies in an effort to create a comprehensive plan for a smooth transition to using IFRS in the United States. These discussions take into consideration issues like whether to allow US filers the option of either adopting IFRS or setting an effective date for implementation by all US registrants. The SEC hosted a roundtable meeting in August 2008 that focused on the performance of IFRS during the market turmoil that already was churning earlier this year. While panelists shared a general consensus that IFRS performed quite well, they acknowledged that challenges exist in the application of both IFRS and US GAAP in areas such as fair-value accounting. In addition, the roundtable focused on accounting for off-balance sheet arrangements and commodity pricing, both topics of particular interest for the power and utility industries. Panelists also expressed the view that IFRS could benefit from additional application guidance to reduce certain inconsistencies as presently applied.

The philosophical underpinning of the IFRS - in that it is "principles-based," as opposed to that of the US GAAP, which is "rule-based" - has triggered much debate within publicly held companies, accountants and investors. While the US financial reporting standards operate around a set of rigid rules, IFRS allows companies more flexibility, so long as they are seen as consistent with the underlying rules. While there are differences between US GAAP and IFRS, the general principles, conceptual framework and accounting results between them are often the same, or similar, for most commonly-encountered transactions.

Regarding the longitudinal analysis of use of IFRS in countries around the world, results suggest a significant momentum for eventual adoption of IFRS worldwide, including in the US. The US now accepts IFRS for non-US firms traded in the US markets; eventual acceptance of IFRS for US-based publicly traded firms seems likely. Regarding the survey of perspectives about IFRS held by top corporate accounting officers, results indicate that accounting officers are highly favorable to acceptance of IFRS for financial reporting by all companies in all countries, including the US.

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