Accounting Historians Journal

Volume 39
Issue 1 *June 2012*

Article 2

2012

Evolution of the relationship between the U.S. financial accounting standards and the international accounting standard setters: 1973-2008

Robert J. Kirsch

Accounting Historians Journal
Volume 39, Number1
June 2012
pp. 1-51

Robert J. Kirsch
SOUTHERN CONNECTICUT STATE UNIVERSITY

THE EVOLUTION OF THE RELATIONSHIP BETWEEN THE US FINANCIAL ACCOUNTING STANDARDS BOARD AND THE INTERNATIONAL ACCOUNTING STANDARD SETTERS: 1973-2008

Abstract: Utilizing archival materials as well as personal interviews and correspondence with personnel of the Financial Accounting Standards Board (FASB) and International Accounting Standards Committee /Board (IASC/B), including former Board chairmen and staff members, this paper examines the development of the working relationships between the FASB and the IASC/B from their earliest interactions in 1973 through the transformation of the IASC into the IASB and the Convergence Program rooted in the 2002 Norwalk Agreement up to 2008.

INTRODUCTION

In 1973, two nongovernmental organizations (NGOs) important to the future development of accounting standard setting were established: the International Accounting Standards Committee (IASC) and the US Financial Accounting Standards Board (FASB). Teegen, Doh and Vachani [2004, pp. 463-465] define NGOs as "private, not-for-profit organizations that aim to

Acknowledgements: The author would like to thank Prof. Dr. Klaus Henselmann, Lehrstuhl für Rechnungswesen und Prüfungswesen, Betriebswirtschaftliches Institut, Friedrich-Alexander Universität, Erlangen-Nürnberg, Germany; Prof. Chris Nobes, Fellow ACCA, Professor of Accounting, School of Management, Royal Holloway University of London, UK; Mr. Kurt Ramin, Commercial Director (retired), International Accounting Standards Committee Foundation, London, UK; Prof. Stephen Zeff, Professor of Accounting, Jones Graduate School of Business, Rice University, Houston, TX, USA; Dick Fleischman and Gloria Vollmers, AHJ editors, and three anonymous reviewers for their comments on earlier versions of this paper. The usual disclaimer applies.

serve particular societal interests by focusing advocacy and/or operational efforts on societal, political and economic goals, including equity, education, health, environmental protection and human rights." The emergence of NGOs as institutions filling voids where governments and firms have been unwilling or unable to meet consumer and citizen needs underlines their importance and justifies an examination of their role in globalization. Both the IASC (and its successor, the International Accounting Standards Board, or IASB) and the US FASB have proven to be vital promoters of the globalization of international financial accounting standards.

This paper traces the evolution of the relationship between these organizations through analysis of correspondence preserved in the IASC files located in the archives of the IASC Foundation,[1] as well as analysis of published documents of the FASB and the IASB. It is fleshed out with information from correspondence and interviews with individuals who participated in the developments. The paper proceeds through the following sections: The First Twelve Years; Deepening Contacts: The Next Ten Years; The FASB Seeks to Involve the IASC; The IASC/IOSCO Core Standards Program; the G4+1; Restructuring the IASC; The Strategy Working Party; The FASB/IASB Convergence Program; Summary and Prospect; and Epilog.

THE FIRST TWELVE YEARS

The IASC was founded by the accountancy bodies of nine countries: Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland (UK), and the United States (US) as a private sector NGO. A part-time body of standard setters who met three or four times a year in various cities around the globe, it had a small, full-time secretariat at its London location.[2]

[1] On July 1, 2010, the IASC Foundation changed its name to the International Financial Reporting Standards Foundation. This paper employs the historically accurate names for the periods covered.

[2] "There is an important contrast between the IASC and the FASB. The IASC was set up by the accounting institutes (certain people in particular) who believed that the accountancy profession should set accounting standards. The US had gone through that experience and had moved on to the idea of an independent standard setter. So the two bodies were constituted differently and so may have approached standard setting and standards on particular topics in different ways." David Cairns, emails to the author, September 11, and December 15, 2011.

Table 1.

Chairmen and Secretaries(-General)

Chairmen of IASC	**Period**	**Origin**
Sir Henry Benson	1973 - 76	UK & Ireland
Joseph P. Cummings	1976 - 78	US
John A. Hepworth	1978 - 80	Australia
J.A. (Hans) Burggraaff	1980 - 82	Netherlands
Stephen Elliott	1982 - 85	Canada
John L. Kirkpatrick	1985 - 87	UK & Ireland
Georges Barthès de Ruyter	1987 - 90	France
Art Wyatt	1990 - 92	US
Eiichi Shiratori	1993 - 95	Japan
Michael Sharpe	1995 - 97	Australia
Stig Enevoldsen	1998 - 2000	Denmark
Tom Jones	2000 – 01	US/UK
Chairman of IASB		
Sir David Tweedie	2001 –11	UK
Secretaries to 1983; Secretaries-General from 1984		
Paul Rosenfield	1973 - 75	US
W.J. (John) Brennan	1975 - 77	Canada
Roy C. Nash	1977 - 79	US
Allan V.C. Cook	1979 - 81	UK
Geoffrey B. Mitchell	1981 - 85	Australia
David Cairns	1985 - 94	UK
Sir Bryan Carsberg	1995 - 2001	UK

Adapted from Robert J. Kirsch (2006), *The International Accounting Standards Committee: A Political History*. London: CCH/WoltersKluwer, Appendix 1, p. 381.

The FASB was founded in 1973. Its creation was based upon the recommendations of the 1972 Wheat Committee of the American Institute of Certified Public Accountants (AICPA) to replace its predecessor, the eighteen-member Accounting Principles Board (APB), which was controlled by the profession. The FASB was established to ensure that its seven full-time standard setters acted in the interests of financial statement users. The Board was composed of former auditors, preparers, and users of financial information [Miller, Redding and Bahnson, 1994, pp. 36-38]; traditionally, one member came from academe.

The FASB's authority derives from the Securities and Exchange Commission (SEC), which, since its founding in 1934, has looked to private-sector NGOs to provide directions for financial reporting practices and now recognizes their standards as "authoritative" and "generally accepted" for purposes of US federal securities laws.[3] With respect to non-public companies, the FASB's authority comes from the AICPA and its requirements governing the responsibilities of auditors who are AICPA members.[4] Thus, the FASB operates within a regulatory environment that may limit its independence, whereas the IASC and, until recently, its successor, the IASB, did not. However, the need for the IASC to get its standards accepted by national bodies may have circumscribed its independence, or at least the independence of some of the organizations or representatives on its board. The same issue arises with the IASB.[5] This is quite evident, for example, in the EU decision to endorse IAS 39 with reservations, i.e., "carve-outs."

Table 2.

FASB Chairmen and Their Terms of Service

Marshall S. Armstrong	November 1, 1972 – December 31, 1977
Donald J. Kirk	January 1, 1978 – December 31, 1986
Dennis R. Beresford	January 1, 1987 – June 30, 1997
Edmund L. Jenkins	July 1, 1997 – June 30, 2002
Robert H. Herz	July 1, 2002 – September 30, 2010
Leslie F. Seidman	October 1, 2010 –

Source: Charry D. Boris, Manager, Library Services, Financial Accounting Foundation.

[3] See "Statement of Policy on the Establishment and Improvement of Accounting Principles and Standards," Accounting Series Release No. 150, December 20, 1973, and "Policy Statement Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter," Securities Act Release No. 33-8221, April 23, 2003, available at *www.sec/gov/rules/policy/33-8221.htm*.

[4] Edmund L. Jenkins, letter to author, September 14, 2008.

[5] "The IASC was not independent of the accountancy bodies although it did have the power to set its own standards without the approval of those bodies – but, of course, the bodies appointed the people who voted. The IASB has always been independent of the accountancy bodies. The IASB/IASCF structure was very much modelled on the then FASB/FAF structure – thanks to SEC pressure which you mention later – so, the IASB was and is as independent as the FASB - but, of course, the IASC did not derive its authority from any particular jurisdiction"; and "As you explain, both the IASB and FASB are susceptible to pressure/lobbying from various sources – and both may find that those who give authority do not accept what they do. In other words, the SEC has not accepted some FASB requirements or proposals and specific jurisdictions have not accepted IASB requirements. Similarly, the US Congress has objected to some FASB requirements/proposals and the equivalent bodies in other jurisdictions have objected to some IASB requirements/proposals. The only difference between the FASB and the IASB is that the FASB is dealing with one jurisdiction whereas the IASB is dealing with multiple jurisdcitions which have varying traditions." (David Cairns, emails to author, October 27, 2008, and September 15, 2011)

In the first few years of the IASC's basic standards phase there was limited contact between it and the FASB. What contact they had was rather formal. Consider the following example. On September 14, 1973, IASC Secretary Paul Rosenfield wrote FASB Chairman Marshall Armstrong:

> …I am writing this letter to you *in my private capacity* (italics added) and not as Secretary of the IASC to ask how liaison between the two bodies should be established. Should the IASC be in direct formal contact with the FASB, or should formal contact be through the AICPA or other American bodies?

Armstrong's September 18, 1973, letter of response to Rosenfield stated:

> In my judgment, inasmuch as the AICPA is the member organization of the IASC, liaison with the FASB should be through the AICPA, rather than directly with us, although I hope that you will feel free to call on me personally if you feel I might be of assistance.[6]

Thus, Armstrong left the door open to direct communication. In the future, direct contact between the IASC and the FASB became routine.

However, in the early years, the IASC, created by professional accountancy bodies rather than standard-setting bodies, insisted that contacts with national standard setters should be channeled through the related IASC national member body. This was still the case when Hans Burggraaff served as the fourth IASC Chairman, 1980-1982. When he visited FASB Chairman Don Kirk in May 1981, Burggraaff got prior permission from the AICPA President.[7] When David Cairns joined the IASC as its Secretary-General in 1985, it was explained to him that any contact between the IASC and national standard-setting bodies had to be made through the member accountancy bodies in that country. He drew the ire of the Institutes in both Canada and the UK for talking directly to people in their respective standard-setting bodies. As he has noted, "The AICPA was perhaps more relaxed about this (perhaps because they did not expect the IASC and the FASB to reach a joint conclusion in private)."[8] In those early years, it was generally thought within IASC that the accounting profession should set accounting standards and enforce their ac-

[6] IASC Archive File, FASB.
[7] Hans Burggraaff, email to author, September 8, 2008.
[8] David Cairns, email to author, October 27, 2008.

ceptance and application, and that it was capable of doing both.[9]

While direct contacts between the FASB and the IASC were rare at this time, the FASB was very much aware of the IASC's standard-setting work and the SEC's reaction to it. Camfferman and Zeff [2007, pp. 157-160] recount a controversy among the Financial Executives Institute (FEI), the SEC, and the FASB over a proposal in IASC's December 1974 Exposure Draft 3 (E3), *Consolidated Financial Statements,* that all subsidiaries, not excepting banking, insurance, and finance subsidiaries of industrial parents, be consolidated. GAAP of the time excepted the inclusion of such subsidiaries. On June 10, 1975, John C. Burton, SEC Chief Accountant, wrote the AICPA that E3 was "not inconsistent" with GAAP and that the SEC would propose amendments to Regulation S-X "which will conform its consolidation rules" to those in E3 if the FASB issued no statement to the contrary. After seeing Burton's letter, FASB Chairman Armstrong wrote SEC Chairman Ray Garrett, Jr., that "the proposed action could seriously undermine" the FASB by weakening its recognized authority and causing a loss of financial support. Garrett responded to Armstrong [Camfferman and Zeff, 2007, pp. 159-160]:

> It seems clear that all efforts at an international level cannot be expected to adopt an American solution. It seems even clearer that proposed solutions at such a level may be considered for possible adoption [in the US] without upsetting the authority of the Board when the Board has not yet decided to deal with the issue.

In the same letter, Garrett commented:

> The Commission [is] witnessing an influx of foreign registrants… [T]he adoption of international standards will achieve improved comparability in an environment which is currently riddled with exceptions. We therefore have viewed with favor the development of the IASC and our [Burton] letter was designed to express our support for their international objectives.

The two-year-old FASB took an egocentric posture, while the SEC had a broader view in supporting the work of the IASC, even at this early date.

Reciprocal FASB/IASC meetings began to occur regularly in 1975. Camfferman and Zeff [2007, pp. 161-162] recount two FASB/IASC meetings in 1976 and 1977. On March 23, 1976,

[9] Hans Burggraaff, email to author, September 8, 2008.

an IASC steering committee chairman, Alex Mackenzie, met two staff members in the FASB's office. Mackenzie reported that Marshall Armstrong had said, "As regards the problem of reconciling domestic and international standards his approach was 'conference and not confrontation.'" The second meeting occurred in November 1977. On December 7, Armstrong wrote William P. Hauworth, II, Chairman of the AICPA's international technical subcommittee, that the meeting with the IASC representatives was helpful and that the FASB would consider the underlying reasoning of IASs 1-6 whenever the FASB undertook projects in which such positions would be "relevant."

On February 14, 1980, IASC Secretary Allan Cook met the FASB staff in Stamford, Connecticut. Following that meeting, Moshe S. Levitin, FASB Technical Associate, sent Cook a draft memorandum of the meeting for his review. In the section dealing with the relationship of the FASB with the IASC, the draft indicated:

> Mr. Cook stated that because of recent criticism that IASC standards reflect the views of a small group, the IASC wants more input from bodies such as the FASB and the European Economic Community [EEC]. He indicated that the IASC Board will shortly consider formal FASB involvement. Mr. Walters [FASB Board Member] stated his belief that the FASB might be receptive to the idea of increased involvement in IASC activities. Perhaps a nonvoting permanent observer at IASC meetings should be considered. Messrs. Cook and Nash [of the IASC] indicated that the matter will be discussed further among the IASC members and with the AICPA representatives.[10]

This quote reveals that the IASC staff coupled increased FASB participation in IASC activities with extension of the same privileges to the EEC; they would continue this strategy until both accepted observer membership on the IASC Board. It is also interesting that it was an FASB Member who first suggested the FASB become a permanent observer of the IASC Board. The FASB would repeatedly make the request in the years ahead.

Levitin's draft memorandum next dealt with accounting for grants received from governments; it explained that the FASB staff had recommended waiting until the IASC issued its standard and then incorporate it into an FASB document which "would indicate tangible support for international harmoniza-

[10] Kirsch (1996), pp. 157-158.

tion of accounting standards."

On foreign currency translation,[11] Levitin noted that Cook had stated the IASC's desire to participate in and to assist with the current effort to harmonize FTC accounting standards in the US, Canada, and the UK. Subsequently, Cook received an invitation to join the FASB's Task Force on Foreign Currency.[12] With the authorization of Chairman John Hepworth, Cook accepted the invitation.[13]

Despite the February 14, 1980, discussion of possible non-voting observer member status for the FASB at IASC meetings, in June 1980 the IASC Board agreed to "not invite FASB as observer." It acknowledged the previous good efforts of the FASB staff on behalf of the IASC, but it was not yet ready to admit the FASB to Board member observer status.[14] In the July 1982 issue of *World Accounting Report* (WAR), Peter Mantle reported that IASC Chairman Hans Burggraaff explained that the IASC had made a conscious decision "to seek a unification of the accounting profession, not of the standard setters (p. 5)."

> [In the first part of my term] there was no urgency to liaise with national standard setters, and that was the case too as regards FASB. It was only in the second part of my term [that] the [IASC] Board began to realize that, in order to make our standards stick, we needed the support from all parties – preparers, users, standard

[11] In March 1979, the FASB appointed a 14-member task force to advise the Board with respect to its project to reconsider Statement No. 8, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements." *FASB Status Report*, No. 83, March 15, 1979, p.1.

[12] David Cairns, email to author, October 27, 2008. "Allan Cook ...was the only IASC secretary to come from a large multinational company and had a particular interest in foreign currency translation. My understanding is that he played a major part in obtaining the resolution of the issue, in particular the approach taken in FAS 52."

[13] In December 1981, the *FASB Status Report* announced that Statement No. 52, a new foreign currency translation standard, replaced Statement No. 8. The Board acknowledged the assistance it received from the fourteen-member Advisory Task Force, as well as observers representing the IASC, the UK and Ireland Accounting Standards Committee, and the Canadian Institute of Chartered Accountants.

[14] David Cairns, email to author, October 27, 2008. "While [the IASC] knew that the technical contribution of the FASB and the European Commission would be different, it had to involve them both for political reasons. This proved to be true when, eventually, the FASB and the European Commission later attended board meetings. The FASB often had substantive technical comments to make. The European Commission's comments tended to be limited to the text (or the interpretation of the text) of the Fourth and Seventh Directives."

> setters, regulators. And that made liasion with national standard setters necessary. To make them aware of our existence, to foster a positive and friendly attitude, to request input and comment on drafts, and to urge them to consider whether they could harmonize their standards with ours."[15]

Thus, contacts between the two organizations continued. On May 31, 1981, IASC Chairman Burggraaff reported on a conversation he had had with FASB Chairman Don Kirk on May 13, 1981:

> [Regarding Accounting for Income Taxes] I suggested to constitute a working party, consisting of representatives of US, UK, and Dutch standard setting bodies, chaired by a representative of IASC to explore…whether a common solution could be found. The fact that a joint approach to the treatment of foreign-currency-translation had proved to be productive, had led the Board of IASC to believe that a similar approach to the annoying problem of deferred taxation might contribute to international harmonization.
>
> Mr. Kirk pointed out that he was very much in favor of international harmonization. However, FASB had to adhere to its rules of due process, and he was not in a position to negociate [*sic*] international agreements.
>
> Mr. Kirk will let me know in due course whether FASB would be inclined to participate in a working party.[16]

Contacts continued on other levels as well. On May 21, 1981, Secretary Cook wrote Kirk that at a recent meeting the IASC Board agreed, at the discretion of the Chairman, to invite guests to attend Board meetings, and he invited him to the June 1981 meeting. He stated that Burggraaff would be happy to invite Kirk to speak if he chose to do so, even though guests would not normally be expected to participate in the discussions. Cook added, "You may like to know that a similar invitation is being sent to the European commission."

Kirk did attend.[17] On July 2, 1981, he wrote to Burggraaff to thank him for the invitation. Kirk commented, "I was most impressed with the Committee members and with the caliber of

---

[15] Hans Burggraaff, email to the author, September 8, 2008.

[16] IASC Archive File. FASB. Ultimately, the FASB and the IASC did cooperate on the development of their respective Income Tax Standards.

[17] IASC Board Meeting Minutes, London, June 23-26, 1981.

the discussion."

Further meetings followed. In January 1982 and November 1983, IASC representatives visited the FASB in Connecticut. The November IASC delegation consisted of Chairman Steve Elliott, Secretary-General Geoffrey Mitchell, and Paul Rosenfield, now Staff Observer for the US. The IASC file note of the meeting is instructive. First, the delegation met with Ralph Walters, FASB Member, and Jim Leisenring, FASB Director of Research and Technical Activities. Elliott indicated that it was IASC's wish that enterprises that traded internationally or whose securities were traded internationally would state that they complied with IASs.[18] Elliott indicated that it was unfortunate that the FASB was not part of the IASC Board. He asked if there was some way in which the two standard-setting organizations could "become closer."

Later that day, Elliott met with Kirk and invited him to attend a meeting of the IASC Board during 1984. Elliott raised the possibility of FASB becoming more closely involved in the work of IASC, perhaps through involvement in IASC's Consultative Group.[19] Kirk expressed interest in this suggestion and agreed to discuss the matter further.

Near the end of his term, in December 1983, FASB Member Walters's remarks at a meeting of the FASB and the Arthur Andersen Public Review Board were reflective of the situation at the time. Walters observed that the FASB had no official role or relationship with the IASC. The AICPA represented the US because the IASC comprised national professional bodies. He observed, "The FASB's attitude toward the IASC has been a mixture of unofficial encouragement, moral support, and benign neglect." The FASB staff monitored IASC activities and reviewed and commented upon IASC exposure drafts. But the Board did not normally consider or take a position on IASC standards. Limited contact and liaison had occurred between

[18] David Cairns, email to author, October 27, 2008. "Both Stephen Elliott and John Kirkpatrick devoted a considerable amount of effort to persuading companies who traded internationally or whose securities traded internationally to state that their financial statements complied with IAS (as well as appropriate national standards). Elliott had announced this policy at the 1982 World Congress. Kirkpatrick (who was my first chairman) pushed this policy in every speech. It is not an easy policy to persuade national standard setting bodies to accept. It is doubtful that the FASB would have had any reason to support such a policy."

[19] In 1981, the IASC established the Consultative Group of outside experts. The Group met twice a year with the IASC Board and provided input on the IASC's technical agenda, its work program, and its broader strategy. David Cairns has indicated that some Consultative Group members participated on IASC Steering Committees (Kirsch, 2006, p. 112).

the two groups, usually initiated by the IASC, whose chairman and secretary had visited the FASB a number of times. IASC had supplied representatives for FASB task forces on projects of strong common interest, such as foreign currency translation and income tax allocation. The FASB chairman had attended an IASC meeting in London in 1981. The vice chairman of the FASB is a member of an IASC steering committee on income tax allocation. "Overall, the FASB is aware of IASC activities and reacts positively to IASC's requests but does not take the initiative in the relationship," noted Walters. He continued:

> The absence of the most influential standard-setting body in the free world from the IASC is an anomaly.[20] From time to time, leadership of the IASC has considered whether the FASB should become a member. The FASB has not sought or encouraged consideration of membership on the IASC. The Board's Rules of Procedure would make it difficult if not impossible for it to assume a voting membership on the IASC board.

The position of the FASB toward other international bodies, such as the United Nations and the Organization for Economic Cooperation and Development, was to suggest they support the IASC and stay out of the standard-setting process. Walters observed, "International harmonization has a low priority at the FASB. The subject is not even mentioned in the statement of the FASB's mission….It is inconceivable to me that the standard-setting body for the US will not become involved in establishing international standards."[21]

There were divisions within the FASB over participation

[20] David Cairns, email to author, October 27, 2008. "There were some in the IASC that felt the same way. Others did not feel that way … because they believed the profession should control standard setting. The [following] response from Don Kirk places emphasis on the needs of users in financial statements in capital markets. The USA is, possibly, unique in that many entities are not required to file financial statements with some regulatory authority. Therefore, the FASB has concentrated on those companies that raise capital on US public markets. In contrast, the IASC developed accounting standards that had to apply to all companies (public and private). As the IASC shifted its focus to companies on international capital markets in the early 1990s, the co-operation between the IASC and the FASB increased."

[21] For the texts of Walters's remarks and Kirk's response, see *FASB Status Report*, No. 154, March 12, 1984, pp. 5-8. Support for Walters's observation is evident by the absence of mention of the IASC or IAS in the paper Donald Kirk presented to the Arthur Young Professors Roundtable in May 1983. See: "The FASB After Ten Years: An Inside View: A Paper by Donald J. Kirk, Chairman, Financial Accounting Standards Board," in Bricker and Previts, 2002, pp. 9-27.

with the IASC. This is reflected in FASB Chairman Donald J. Kirk's response to Walters. Kirk observed that because of legal requirements and American expectations, the FASB must concentrate on its mission to develop standards for entities that issue financial reports in accordance with GAAP. With respect to direct participation by the FASB in the IASC, "that is not feasible under the IASC's present charter and the Board's own Rules of Procedure." Were those circumstances to change, it would be awkward for the FASB to participate in setting standards that inevitably would differ in important respects from FASB's own standards.

These were the formative years of both the FASB and the IASC. FASB had plenty to deal with domestically as its standards were criticized as too detailed and costly for small and mid-sized entities.[22] The IASC was busy establishing its international bona fides, introducing its initial standards, and measuring their impact.[23]

DEEPENING CONTACTS: THE NEXT TEN YEARS

In 1986, the Financial Accounting Foundation announced the appointment of Dennis R. Beresford as FASB Chairman. Among the experiences Beresford brought to the Board was service as US IASC representative, 1982-84. With Beresford's assumption of the Chairmanship, the FASB began to take a greater interest in international accounting matters.

Criticism of the IASC's many permissible alternative accounting treatments by members of the profession and national standard setters led to the launching of its Comparability/Improvements projects. At its March 1987 meeting, the IASC Board appointed a Steering Committee, chaired by Ralph Walters, now representing the AICPA on the IASC Board, to use the IASC *Framework* "to test the validity of alternative treatments and decide whether they are acceptable." This became the IASC's Comparability Project, and led to E 32, *Comparability of Financial Statements* [Kirsch, 2006, pp. 182-184].

On July 3, 1987, Walters spoke to Secretary-General David Cairns about a recent conversation he had had with FASB Chairman Beresford and Jim Leisenring about proposals for involving the FASB more in the work of the IASC. Among the proposals was one that "the FASB could appoint an observer to

[22] See: WAR, March 1982, October 1982, and December 1983.

[23] See: WAR, September 1979, June 1983, and October 1984.

the IASC Board."

Before the World Congress of Accountants in Tokyo, October 11-15, 1987, the majority of the IASC Board did not take very seriously the possibility of inviting the FASB and the European Commission to serve as IASC observers. The non-US, non-UK members were quite conscious of the asymmetry of means and reputation between the FASB and the IASC at that time. For many IASC Board members, it would have been interpreted as giving too much influence to the US point of view. But those who favored the invitation were helped by the following: (1) the AICPA sent representatives to the IASC Board who held personal opinions that did not always coincide with GAAP; and (2) the European delegates, who had a blocking minority, kept referring to the [European Community's Accounting] Directives,[24] but held different national interpretations of them. "The situation was becoming embarrassing, as the exercise was not to invent, but to choose (or to offer options) between proven methods."[25]

At the Tokyo World Congress, outgoing IASC Chairman John L. Kirkpatrick and incoming Chairman Georges Barthès de Ruyter (Georges Barthès)[26] agreed that they would offer two observer seats to the FASB and the European Commission. "This was part of a very significant shift in policy lead by Georges Barthès. As soon as he became chairman, he emphasised the need for direct links between the IASC and important players: the FASB and the European Commission. He went to the FASB within two weeks of taking office."[27] Georges Barthès has observed:

> …we knew it would be easy with the FASB and very difficult with the Commission. But, politically, it had to be simultaneous. If not, the general feeling would have been that the IASC would become the international subsidiary of the FASB. Think of the difference of technical means between the two organisations! And it was already obvious that Europe would be a better "market opportunity," at first, than the US. So the move was de-

[24] Mainly the Fourth and Seventh Directives, which govern the contents of published financial statements.

[25] Georges Barthès de Ruyter, email to author, September 2, 2008. David Cairns, emails to author, September 11, and December 15, 2011, indicated that US and UK board members were likewise quite conscious of the assymetry of means and reputation between the FASB and the IASC at that time, but that all US and UK members "did not necessarily support inviting the FASB and the EC."

[26] WAR, January 1987.

[27] David Cairns, email to author, October 27, 2008.

layed by the incapacity of the Commission to decide…[28]

On October 26, 1987, Georges Barthès and David Cairns visited the FASB "in order to find ways of establishing a permanent link between the FASB and IASC." Cairns minutes indicated: Georges Barthès observed that he would like to involve both the FASB and the EC more directly and permanently in the work of IASC. Beresford supported the idea of involvement in the Consultative Group and suggested that it might be more cost effective for such a FASB person to stay on as an observer to the Board meetings. Involvement in IASC Steering Committees was also discussed. Ways of increasing IASC involvement in the work of the FASB were considered including IASC taking part in FASB task forces and making nominations to the Financial Accounting Standards Advisory Committee (FASAC).[29]

On March 11, 1988, Cairns visited the FASB for discussions regarding invitations to the Consultative Group, national standard-setter meetings, and IASC's Comparability Project. Cairns's notes indicate that he "confirmed that the Board would not decide until June 1988 whether to extend a formal invitation to the FASB [and the European Commission] to join the Consultative Group"; that the meeting participants thought that it was particularly appropriate that a national standard-setters meeting consider "the experience of standard-setting bodies with conceptual frameworks"; and that a general discussion took place on various technical aspects of IASC's Comparability Project, including pooling (uniting) of interests, investments, and joint ventures.

In the June 27, 1988, issue of *Status Report*, Beresford set forth his view of the role the FASB might take in achieving accounting standards responsive to the needs of a global marketplace.[30] Regarding the term *harmonization,* Beresford observed that it should not be seen as "a search for commonality at the price of settling on the lowest common denominator…[T]he FASB would support an objective that seeks to create superior international standards that would then gradually supplant national standards as the superior standards became universally accepted." Beresford identified a number of obstacles that needed

---

[28] Email to author, September 13, 2008.

[29] David Cairns, emails to author, October 27, 2008,and December 15, 2011. "The IASC made a nomination (Derek Bonham, the CFO of Hanson). I recall it being quite a difficult process to find somebody both suitable and available to participate in the US process."

[30] Remarks made to the IASC Board during its Toronto meeting, June 22-24, 1988, WAR, October 1988, p. 8. Venue confirmed by David Cairns, email to author, September 11, 2011.

to be overcome for international accounting standards to be widely accepted: (1) the differing national objectives of financial reporting; (2) the wide spectrum of national standard-setting structures from predominantly government-set to predominantly private-sector standards; (3) nationalism; and (4) the particular economic, political, and social priorities of various nations. After acknowledging the criticisms of the FASB's attitude toward IASs (variously described by others as "benign neglect," "uninterested," "uncooperative," and "less than enthusiastic"), Beresford identified a number of actions that should help the FASB become more directly involved in improving international accounting standards. The FASB's near-term international initiative included: (1) willingness to join the IASC Consultative Group; (2) expansion and strengthening relationships with national standard-setting bodies; (3) more systematic analysis of international accounting literature in connection with major FASB projects; (4) solicitation of more commentary on FASB exposure drafts from an international perspective; (5) discussion with IASC leadership on holding an international conference of national standard setters on accounting conceptual frameworks; and (6) seeking accountants with foreign experience to join the FASB staff. Beresford commented, "Injecting an international perspective into [the FASB's due] process can help make the FASB a constructive player in the quest for superior international standards that are universally accepted." He concluded, "International standards are not likely to be our highest priority for the foreseeable future but they will be a factor in our regular process. Their priority will rise as constituent needs increase…."[31]

On August 1, 1988, IASC Chairman Georges Barthès extended an invitation to Beresford to join the IASC Consultative Group. Sagely, he observed:

> The Board is well aware that improvements in International Accounting Standards cannot be separated from developments in national requirements. Closer working relationships between IASC and national standard-setting bodies will help increase the likelihood that different national standard-setting bodies reach the same solution to the same issues. Such a position is, without doubt, the best basis for International Accounting Standards.[32]

---

[31] "FASB Viewpoints: Internationalization of Accounting Standards: The Role of the Financial Accounting Standards Board," No. 195, pp. 3-6.

[32] IASC Archive File, FASB.

George Barthès noted the Board had decided to review its policy on the attendance of observers (notably, members from the Consultative Group) at Board meetings. Thus, he could not confirm whether the FASB representative would be able to attend part of the Board meetings on a regular basis.

Ten days later, Beresford responded to Georges Barthès's letter, "I believe we should defer a decision on accepting the invitation until you have concluded your discussions regarding attendance of observers at Board meetings." Noting that the FASB had to carefully consider costs and would have difficulty justifying sending someone to a one-day meeting overseas, he observed that "a major objective of our participation is to hear the discussion of the projects by the Board members themselves."[33]

Ultimately, on September 12, 1988, Georges Barthès wrote Beresford to extend the invitation for the FASB to attend Board meetings as well as Consultative Group meetings. In addition, he noted that a similar invitation had been extended to the European Commission. On September 27, Beresford accepted the IASC's invitation. FASB Board member James Leisenring was the initial appointee as FASB observer. *World Accounting Report* (October 1988) greeted FASB's acceptance of IASC Consultative Group Membership as "a major development indicating a move away from its previous insular perspective."

THE FASB SEEKS TO INVOLVE THE IASC

Rather quickly after accepting the IASC's invitation, the FASB sought to involve the IASC in its own projects. Thus, less than a month later, on October 21, 1988, Beresford wrote Georges Barthès asking him to nominate someone who could lend an international perspective to the FASB's task force looking into recognition and measurement phases of its project on Financial Instruments and Off-Balance Sheet Financing.

The FASB continued to press the IASC to hold a conference of national standard-setters on Conceptual Frameworks.[34] In conjunction with the 1990 United Nations meeting,[35] the FASB agreed to a formal IASC visit at which the IASC would report on

---

[33] IASC Archive File, FASB.

[34] *Meetings at the FASB, Norwalk, Connecticut*, July 18, 1989.

[35] David Cairns, email to author, September 11, 2011. "It was 'in conjunction with' only in the sense that I and (probably) Georges Barthès were in New York for that meeting. In the same way that the FASB had cost constraints, the IASC also had budget constraints. As the relationship developed, the IASC made specific visits to the FASB unrelated to other commitments in the US."

what its Board intended for its Exposure Draft on Comparability (E32).

At the July 25, 1989, Financial Accounting Standards Advisory Committee meeting, E32 featured prominently in the discussions. In his notes on the meeting, David Cairns reported that among the issues were the question of implementation and the need for compromises that would not result in the weakening of national standards. Noting that IASs were well above the lowest common denominator, Cairns emphasized the important role national standard-setting bodies could play in IASC and the need for change in IASC itself. Further, he stressed that the comparability project was part of a wider improvements project that IASC was carrying out.[36]

In early 1991, the FASB's Financial Accounting Foundation (FAF) asked the FASB Board to prepare a strategic plan for FASB international activities. On March 5, David Mosso, former two-term Board member and current FASB senior staff person, faxed Arthur Wyatt, IASC Chairman, a copy of the draft strategic plan for his review. In his thoughtful comments welcoming FASB's development of a strategic plan for international involvement, Wyatt, an American and former FASB member, 1985-87, observed:

> …I believe that the ultimate resolution of the standard-setting dilemma internationally will not lie in the hands of the standard setters, but will lie in the hands of the regulators….
>
> …I believe that [the FASB] has gone too far in [the] direction [of the detailed rules approach] and that the most significant responsibility for fair financial presentations must rest with preparers and auditors. If such a development were to take place, accounting standards would have to be more flexible than they are in the United States and thus be somewhat more like those we find in many other countries. Greater flexibility, of course, poses real problems for regulators, but in my view the direction in which we have been moving in the United States is doomed to failure. There simply isn't any way for the FASB, or any other private sector standard-setting body, to bear the responsibility that is properly borne by those who prepare financial statements and those who audit them.[37]

[36] IASC Archive File, FASB.
[37] IASC Archive File, FASB.

Wyatt concluded that the IASC appeared to be a structure that had promise for achieving improvements over a shorter time span than other alternatives one could develop.

On March 12, 1991, Cairns met with FASB's Jim Leisenring, David Mosso, and Jeannot Blanchet (the person with international experience that the FASB recruited to deal with international matters)[38] to discuss FASB's draft strategic plan. Among the items discussed were FASB/IASC cooperation on earnings per share (EPS) and business combinations, annual meetings of national standard setters, and the effectiveness of FASB involvement in IASC's Consultative Group. Cairns's notes[39] record that "DHC [Cairns] recognized problem. Added that reconsidering role of Consultative Group – may need to move away from focus on IASC Board's current agenda." Subsequently, Cairns noted, "My acknowledgement of problems with consultative group meetings was a general concern that the IASC was not getting the sort of input it wanted from the consultative group." [40]

In August 1991, the FASB published its plan for international activities in its *Status Report*.[41] Paragraph 3 gave the two assumptions upon which the plan was based: domestic financial reporting needs would continue to be the FASB's first priority, and its international activities would be conducted within its charter and mission statement. Paragraph 4 reiterated the FASB's position that "[t]he ultimate goal…would be a body of superior international accounting standards that were accepted in all countries as GAAP for general purpose external financial statements." Paragraph 5 laid out the principal goals of the FASB's international strategy: (1) "[t]o make financial statements more useful for investor and creditor decision making by increasing the international comparability of accounting standards concurrently with improving the quality of accounting standards"; and (2) "[t]o enhance the FASB's standard-setting process, and resulting standards, by gaining new insights and ideas from other national and international standard setters and from financial statement users, preparers, auditors and educators in other countries."

[38] David Cairns, email to author, October 27, 2008.

[39] Notes of a meeting at the FASB, Norwalk, 12th March 1991, on the FASB's draft Strategic Plan for involvement in International Activities. IASC Archive File. FASB.

[40] David Cairns, email to author, October 27, 2008.

[41] Drafts of the FASB plan were discussed with the IASC, the FASAC, the technical partners of the Big Six accounting firms, representatives of the SEC, and the AICPA.

In paragraph 6, the FASB outlined the standard-setting efforts it would take to achieve these goals, including: (a) consideration of foreign national and IASC standards in domestically oriented FASB projects; (b) engagement in joint multinational standards-setting projects on mutually selected topics; (c) considering the adoption of foreign national or IASC standards judged to be superior to their US counterparts; (d) convincing other countries, or the IASC, to adopt specific US standards judged to be superior; (e) attempting to reach agreement on a choice of existing standards to which neither US standards nor other national or IASC standards were demonstrably superior; and (f) continuing to encourage equality of financial statement requirements for foreign and domestic companies in their utilization of US capital markets.

Paragraph 9 laid out the FASB's near-term focus: (1) cooperate with IASC, Canada, and other national standard setters in the consideration of accounting for financial instruments; (2) participate in an international conference on a common framework of accounting concepts; (3) review the differences between US standards and those of the IASC and other major countries; (4) identify a project with promise for reaching quickly broad international agreement, such as determining the EPS denominator; and (5) consider adopting IAS 20, Accounting for Government Grants.[42] *World Accounting Report* [October 1991, p. 1] greeted the plan by noting that "the FASB is set to become a major player in international harmonization, after 20 years of only occasional flirtations" with non-US standard setters and the IASC.

In the June 30, 1992, issue of *FASB Status Report*, Beresford recounted the progress the FASB had made in the implementation of its plan and its internationalization efforts. The FASB had amended its mission statement to add an international dimension, nearly a decade after former Board member Walters had commented upon it. It had formed an informal advisory group to advise it on international matters, and, over the previous two years, had systematically given more attention to the accounting and research studies of other countries. It supported the IASC in its efforts to harmonize accounting internationally, had sent detailed comment letters on various IASC Exposure Drafts, and had offered its assistance to the IASC on its agenda projects, such as earnings per share. In terms of its relations

[42] "FASB's Plan for International Activities," No. 223, August 31, 1991, pp. 6-8.

with other countries, Beresford reported that the FASB supported the "mutual recognition" thrust of the SEC, especially with respect to Canada and the United Kingdom. In addition, it had invited the representatives of selected countries to attend a meeting at its offices following the October 1992 World Congress of Accountants in Washington, D.C.[43]

Forty participants attended the two-day conference.[44] Among them were: David Cairns, IASC Secretary-General; Eiichi Shiratori, incoming IASC Chairman; Edouard Salustro, President of the Fédération des Experts Comptable Européens (FEE); John Hegarty, FEE Secretary-General; Karel Van Hulle, European Commission; and standard setters from Australia, Germany, Japan, and the United Kingdom. Items discussed included a review of the Brussels Conference on the need for a common conceptual framework, country-by-country reviews, cooperative efforts to improve accounting standards, and future meetings.[45]

On May 4, 1993, FASB Chairman Beresford and Canadian Accounting Standards Board (AcSB) Chairman Paul Palmer sent a joint letter to IASC Chairman Eiichi Shiratori to suggest that the IASC's recent decision to reconsider IAS 14, Business Segments, presented "an excellent opportunity" for the staffs of the IASC, FASB and AcSB "to share information and insights on the issues that will be addressed as these projects unfold." As a consequence of this cooperation, the IASC's revised IAS 14 (1997) was more similar to the FASB's original business segments standard than the revised FAS 131.[46] There would be future cases in which, despite collaboration, the FASB and international standard setters would arrive at different approaches.

In December 1994, Beresford reported that the FASB had undertaken an evaluation of its Strategic Plan for international activities, and had essentially reaffirmed it with some revisions. He noted that in the original plan the FASB had listed as one of

---

[43] *Status Report*, No. 232, pp. 6 – 10.

[44] David Cairns, email to author, October 27, 2008: "It was this meeting which, to all effects, led to the creation of G4. Around this time, the FASB and the IASB also decided to co-operate on earnings per share. The IASC had already made significant progress and the FASB began the project on the basis that it would conform GAAP with the IASC's thinking, as the FASB made clear in its project proposal"

[45] "FASB Hosts Meeting of World Standard Setters," *FASB Status Report*, No. 237, November 30, 1992, pp. 2-3; for an interesting summary of the divisions evident at the meeting, see K. Atchley, 1992, pp. 154-155.

[46] David Cairns, email to author, September 11, 2011. "This is a view (perhaps a myth) which seems to have grown up during the last few years. At the time the revised IAS 14 was approved the message was that it was close to FAS 131." (See the history of IAS 14 in Cairns, 1999, pp. 741-744).

its focal points "to encourage the equality of financial statement requirements for foreign and domestic companies in their utilization of US capital markets." In the revised plan, this became a specific objective, rather than a broad area of interest. Beresford acknowledged that the movement toward international comparability should be comprehensive and that "the FASB should, where possible, contribute to the process at all levels." He reported further that the FASB had revised the premise that domestic financial reporting needs would continue to be its first priority and that of other national standard setters. In light of its experience, the FASB concluded that its obligation to its domestic constituents demanded "that it attempt to narrow the range of difference between US and foreign standards," working with other standard setters around the world "to the extent necessary to achieve greater comparability."[47]

THE IASC/IOSCO CORE STANDARDS PROGRAM[48]

As noted above, the IASC had been criticized for years for standards that were said to approach the lowest common denominator. The first attempt to address such criticism, its Comparability/Improvements projects, had met with only limited success.

In the course of IASC's history, one of its most important external relationships was that with the International Organization of Securities Commissions (IOSCO). The relationship had begun in 1986, and a close liaison had developed during the Comparability/Improvements projects (1987-1994). With the passage of time, each organization devoted more and more time and resources to advancing their common cause: the issuance by IASC and endorsement by IOSCO of a core set of IASs that could be employed to prepare the necessary financial reports for cross-border listing of corporate securities. When the completion of the Comparability/Improvements projects in 1993 did not result in IOSCO endorsement, the executive officers and Board of IASC had been collectively very disappointed, and relations between IOSCO and IASC Chairman Shiratori became strained.[49]

---

[47] "Notes from the Chairman," FASB Status Report, No. 259, p. 2.; and "Highlights of Financial Reporting Issues: FASB's Plan for International Activities," FASB Status Report , No. 262, pp. 6 – 10.

[48] Excerpted from Kirsch, 2006, various chapters, updated with further research.

[49] David Cairns, email to author, September 11, 2011. "There were a lot of

There was clear evidence that the FASB was critical of aspects of the IASC's approach to meeting IOSCO's requirements in terms of both technical content and due process [Camfferman and Zeff, 2007, pp. 338-340]. During Cairns's time as Secretary-General, there was tension between the views of the IOSCO representatives on the Improvements Project and the comments of the FASB. His last two years saw evidence of tensions between the position of the FASB and that of the US Board representatives on financial instruments. Cairns recalled occasions "on which the FASB observers openly criticised US [Board] representatives for supporting certain positions."[50]

On July 5, 1995, the newly appointed IASC Secretary General, Sir Bryan Carsberg, informed Shiratori that IOSCO had responded with enthusiasm to the IASC's draft revised work program, and that IOSCO had prepared a draft press release stating that the proposed wording seemed "very helpful." As a result, on July 9 the Board of the IASC and the Technical Committee of IOSCO issued the following joint press release:

> The [IASC] Board has developed a work plan that the [IOSCO] Technical Committee agrees will result, upon successful completion, in IAS comprising a comprehensive core set of standards. Completion of comprehensive core standards that are acceptable to the Technical Committee will allow the Technical Committee to recommend endorsement of IAS for cross border capital raising and listing purposes in all global markets. IOSCO has already endorsed IAS 7, Cash Flow Statements, and has indicated to the IASC that 14 of the existing International Accounting Standards do not require additional improvement, providing that the other core standards are successfully completed.

The press release was greeted with a measure of caution by IASC. The October 30, 1995, minutes of the Executive Committee reported that the wording of the agreement with IOSCO was such that IOSCO would not have to make a firm commitment to endorse IASs even after satisfactory completion of IASC's work program. Nevertheless, the general view was that it would be difficult for IOSCO not to endorse international standards

---

IOSCO people who agreed with what ES [Eiichi Shiratori] said – the problem was the SEC both from the perspective of the IASC and other members of IOSCO."

[50] David Cairns, email to author, October 27, 2008. "Following the July 1995 agreement [between the IASC and the IOSCO Technical Committee], there were some very strong criticisms by the FASB about the IASC's approach to completion of core standards."

upon successful completion of the IASC work program because of the way IOSCO had raised public expectations. As Martinez-Diaz [2005, p.11] has noted, "it was widely understood that the rejection of [the Core Standards] by the IOSCO—and by its most powerful member, the SEC—would severely limit the future of IASC standards."

While far from perfect, the IASC/IOSCO press release would be referred to by both organizations in the years ahead as proof of their good intentions and as a rationale for the steps they would take. It would prove to be a defining document in their long-running collaboration.[51]

There was division within IOSCO about the course it should take. Should it endorse the IASC's standard-setting process, or should it endorse standards one by one? Should it demand the completion of the whole body of minimum International Accounting Standards? And, should it insist upon the establishment of an IASC interpretation mechanism?

On July 12, 1995, three days following issuance of the IASC/IOSCO joint press release announcing the Core Standards Program, and shortly before the FASB notified the SEC of its intention to undertake a comparative study of US and IASC Standards, FASB Chairman Beresford sent Carsberg a copy of a draft of a letter to the SEC for his review and comment. In the draft letter, Beresford noted that "[t]he IASC improvements project has narrowed the range of differences from US GAAP, but many differences remain, even in the newly adopted standards."[52] On July 20, Carsberg responded that he hoped the IASC could be involved in the project "by seeing drafts at an early stage and having the opportunity to comment on them," and that he would like to see the findings feed into mutual efforts to eliminate or at least narrow the differences. Once the FASB comparison project was completed, Carsberg wrote Beresford, "our standards are being revised [in connection with the Core Standards Program] and we shall certainly be considering your catalogue of differing requirements in making decisions about our revisions."[53]

---

[51] "Put at its most basic, the new end game involves IASC moving its standards near enough to US GAAP to be acceptable to the SEC as providing equivalent transparency and thereby shareholder protection, while at the same time staying far enough away from GAAP to win the support of the rest of the world." WAR, August/September 1995, p. 1.

[52] IASC Archive File. Chairman, Secretary-General Correspondence.

[53] In late 1996, Beresford noted that the SEC might consider IASC standards for use without reconciliation to GAAP by foreign companies in US capital markets as early as 1998. Beresford commented: "Using IASC standards without

In an April 11, 1996, press release, the SEC indicated that it supported the IASC's objective "to develop…accounting standards that could be used for preparing financial statements used in cross-border offerings." It noted that there were three key elements to the IASC's program and the SEC's acceptance of the results: (1) a core set of comprehensive, generally accepted accounting pronouncements; (2) high quality standards resulting in comparability, transparency, and full disclosure; and (3) rigorously interpreted and applied standards. Once the IASC had completed its Core Standards Project, fulfilling these key elements, it was the Commission's intention "to consider allowing the utilization of the resulting standards by foreign issuers offering securities in the US." Thus, the SEC did not agree automatically to accept the IASC's core body of standards, but expressed its "intention to consider" them [Kirsch 2006, p. 301].

IASC and IOSCO progress on the Core Standards Programme presented interesting challenges to the SEC (the strongest IOSCO member) and the FASB. They were confronted with deciding whether and how the SEC should endorse IASs, as well as contemplating the role of the FASB following that endorsement. On March 27, 1997, FASB Chairman Beresford minuted a recent Financial Accounting Foundation (FAF) meeting with the SEC. Those minutes make it clear that in early 1997 SEC Chairman Levitt was unsure which position the Commission should take in endorsing IASC's core standards, an incremental approach or a total package approach. It is also clear that Levitt was interested in preserving the FASB as a standard setter while supporting the internationalization of accounting standards, that the FAF and the FASB were interested in seeing the IASC improve all its standards, and that there was dissatisfaction with some public statements made by IASC's leaders.

In February 2000, the SEC issued *Concept Release: International Accounting Standards*[54] to request input on "whether the

---

reconciliation to US GAAP would shift the burden to US investors attempting to compare investment opportunities among foreign and domestic companies competing for capital on the same market. The FASB's comparison Report can help those investors sort out the differences," in FASB Status Report, No. 168C, December 23, 1996, p. 1.

[54] As early as September 2, 1998, Paul Leder (SEC and IOSCO Working Party No. 1 Chairman) and Mary Tokar (SEC) briefed Sir Bryan Carsberg in London. On September 28, 1998, Carsberg wrote a memorandum to the Executive Committee members to outline their proposals: "…SEC would start its processes in the United States by issuing a "Concepts Release" [sic] before taking a position on endorsement in IOSCO fora. Publication of the Concepts Release would show continuing momentum and determination to move ahead with decisions….then,

IASC standards: 1. constitute a comprehensive, generally accepted basis of accounting; 2. are of high quality; and 3. can be rigorously interpreted and applied." The SEC received 93 comment letters ranging from statements indicating that IASs were principles of high quality requiring no reconciliation to GAAP to the opposite extreme that they were of lesser quality requiring full reconciliation. US commentators generally fell into the GAAP rule-based/reconciliation group; non-US commentators more often fell into the principles-based group.[55]

Following analysis of the comment letters received in connection with the concept release, the SEC continued to monitor international accounting standard-setting developments. There was a change in the Commission's leadership following the SEC's receipt and analysis of its February 2000 Concept Release. Arthur Levitt departed and was replaced by Harvey Pitt, who was shortly replaced by Christopher Cox. The SEC's position on IASs was in limbo for quite a while. Finally, in October 2002 the SEC supported the FASB/IASB Norwalk Agreement formalizing their commitment to the convergence of GAAP and international accounting standards (see below).

THE G4+1[56]

In the early 1990s, a powerful grouping had come into operation: the G4+1. Sir David Tweedie, IASB Chairman, recalled that it "started accidentally" when, in his capacity as Chairman of the UK's Accounting Standards Board, he had a meeting with FASB Chairman Beresford in which the two of them agreed it would be a good idea to set up a joint group. Street [2005, p. 10] described the meeting as occurring at the FASB's Norwalk office in 1992; John Denman, Accounting Standards Director of Canada's Accounting Standards Board (AcSB), joined the discussion and the three agreed to work together—hence, in Tweedie's view, taking the first step in the development of the "Group of 4." Originally, the standard setters of Australia, Canada, the United

---

if things were still looking positive, a detailed rulemaking proposal in the United States to meet the formal requirements for moving to accept our Standards for cross-border listings."

[55] The 48 comment letters that were filed electronically are available at www.sec.gov/rules/s70400.htm; hard copies of all comment letters are available in the SEC's Public Reference Room, File No. S7-04-00. For IASC's analysis of the comment letters, see: "Mixed Views on IASC Standards," IASC Insight, June 2000, pp. 12-13.

[56] Excerpted from Kirsch, Chapter 8, and updated with further research.

Kingdom, and the United States (the G4) sent representatives,[57] and IASC members were invited to participate as observers (G4+1). The group met several times each year and progressed from background studies to "position papers" that could have been used to prepare exposure drafts. Turf wars developed as both IASC and some G4 representatives entertained global accounting visions. Some G4 members began to ponder possible alternatives to IASC. Among those considered were G4, an expanded G4, or an expanded FASB [WAR, May 1996, p. 1].

IASC Chairman Michael Sharpe (1995-97) and Secretary-General Carsberg, recognizing the way the wind was blowing, advocated restructuring the IASC so that it would become a quality international accounting standards setter. They succeeded in convincing the IASC to appoint the Strategy Working Party (SWP). Once that was formed, the agenda of G4+1 meetings included a discussion of IASC's restructuring [Street 2005, pp. 65-67].

For its part, the IASC was closely interested in the work of the G4+1 from its beginning in early 1993, following the discussions at the FASB in 1992.[58] On January 30, 1996, Members of the Executive Committee discussed the role of G4+1 and its relationship with IASC. Carsberg saw it "as an important challenge in communication to build up relationships with standard setters in other countries so that the G4 countries would not be seen as excessively influential."[59]

The Executive Committee meeting minutes show a continual interest in the G4+1, including its work on financial instruments,[60] pooling accounting,[61] performance reporting,[62] and share-based payments.[63] The IASC participated in G4+1

---

[57] Street [2005, pp. 10 and 13-14] indicated that G4 was not intended to be an "Anglo-American club." All countries with an accounting standard-setting body were extended an invitation to join. However, only the G4 standard setters self-selected. Street cites Jim Leisenring's explanation that this was due to their interest in international financial reporting and their desire to solve accounting problems using the IASC Framework's concepts. Street reported that Herman Marseille of NIvRA, the Dutch standard setter, attended one G4+1 meeting, but NIvRA decided not to join due primarily to resource constraints and the fact that its Board members were part-time.

[58] David Cairns, email to the author, September 11, 2011.

[59] Executive Committee, January 30, 1996.

[60] Paris, October 29, 1997.

[61] Niagara-on-the-Lake, Canada, July 5, 1998.

[62] Zurich, November 8, 1998, Washington D.C., March 15, 1999, and Venice, November 14, 1999.

[63] Executive Committee, Copenhagen on June 18, 2000.

discussions, issued G4+1 discussion papers with its own wrap-around covers,[64] and re-opened existing standards or initiated new ones. Michael Sharpe has noted that the G4+1 was very helpful to the IASC. There was a risk, however, that unless the IASC got its own act together, G4+1 could develop a life of its own.[65]

RESTRUCTURING THE IASC[66]

A number of internal and external factors triggered the recognition by IASC Chairman Sharpe and Secretary-General Carsberg that the IASC needed to consider its future mission and structure once the IASC/IOSCO Work Programme had been completed. One need was to improve relations with national standard setters to realize a "complete harmonisation between international standards and standards used for domestic reporting." This could be achieved, on the one hand, through "working with governments and governmental agencies to encourage official adoption of international standards" and, on the other, "[w]orking with national standard setters to co-ordinate agendas and attempt to agree common solutions." Another factor for considering the IASC's future mission and structure was a desire to enhance the global representativeness of the Board by enlarging its country membership seats.[67]

Before the Executive Committee meeting in June 1996 Carsberg released an agenda paper, *Future Strategy of IASC*,[68] for the Executive Committee and Advisory Council to discuss at their forthcoming joint meeting. That meeting[69] was the scene of a lively debate, after which the participants agreed that Carsberg should draft terms of reference for a working party to consider the future strategy of the IASC.

June 1996 was an eventful month for the IASC. In addition to its joint Executive Committee and Advisory Council meetings, it participated in the World Standards Setters meeting. On June 21, FASB Chairman Beresford delivered a series of eight

---

[64] David Cairns, email to author, September 11, 2011. "[O]nly the covers ...were different – the same happened in each G4 country."

[65] Michael Sharpe, email to author, March 22, 2004. At its 2001meeting in London, given the imminent commencement of the IASB, the G4+1 decided to disband and cancel its future activities. G4+1 COMMUNIQUÉ, Number 10, January 2001.

[66] Excerpted from Kirsch [2006, Chapter 10], and updated with further research.

[67] *Plans for IASC*, Advisory Council Papers – July 1995, Agenda Paper IV.

[68] Executive Committee Papers – June 1996, Agenda Paper X.

[69] Executive Committee and Advisory Council, Frankfurt, June 9, 1996.

suggestions for IASC procedural changes to reinforce the IASC's importance in the internationalization of accounting: (1) hold meetings open to the public; (2) consider additional procedures, such as public hearings on proposals and field testing, to ensure that it received and considered the best possible input; (3) better educate its members on the intricacies of matters under consideration; (4) send materials to Board members "well in advance" of meetings (some Board members complained they had too little time to consider them) for careful analysis by home country associates and for development of carefully reasoned positions; (5) greatly increase the size of its staff to do the technical support work for its steering committees; (6) resolve the matter of implementation guidance for IASs; (7) find a way to "reduce the inherent conflict of interest when an all-part-time Board sets standards its own members must follow and audit"; and (8) be realistic in its work plans and commitments to develop a complete set of IASs. Beresford felt it was "highly unrealistic" to expect to complete the Core Standards Programme by March 1998.[70] Many of his suggestions were implemented by the IASC/IASB, including open public meetings, implementation guidance with the creation of the interpretations committee, IASB's greatly increased staff compared to IASC's, and elimination of the "inherent conflict of interest" with the introduction of the largely full-time IASB. In the coming years, Beresford's public comments were repeated and elaborated upon in public and private by the FASB and SEC members who participated, officially and unofficially, in the work of the IASC's Strategy Working Party.

THE STRATEGY WORKING PARTY[71]

At the September 1996 Executive Committee meeting, Carsberg introduced an agenda paper[72] that presented his proposal for the establishment of a Strategy Working Party (SWP). The Executive Committee and the Board approved the SWP's terms of reference. IASC Chairman Sharpe and Secretary-General Carsberg asked Ed Waitzer, a lawyer and former Chairman of

---

[70] Dennis R. Beresford, "Outline: World Standards Setters." Beresford sent the outline of his remarks to the 1996 World Standard Setters meeting to the author with a letter dated August 11, 2008. See also: Jim Kelly, "IASC/IOSCO—A Hand on the Brake," WAR, April 1997, p. 2.

[71] Exerpted from Kirsch [2006, Chapter 10], and updated with further research.

[72] *Strategy Working Party*. Executive Committee Papers, Agenda Paper VI.

the Ontario Securities Commission and of the IOSCO Technical Committee, to become chairman of the SWP, and he accepted. In August 2001, Carsberg commented, "[W]e felt pretty sure that Ed Waitzer…was somebody in good standing with the SEC… who could go to the SEC and talk about things and at the same time be well received there but take a somewhat independent view."[73]

At the SWP's first meeting on July 21-22, 1998, in London, Carsberg described the IASC's core standards agreement with IOSCO and the SEC's response. Former SEC Chairman David Ruder then discussed the likelihood that the SEC would accept the IASC's core standards once they were completed. Ruder emphasized that "the SEC will act cautiously and wish to retain oversight authority over the setting of accounting standards used in the securities market." During this meeting, the SWP began to use the term "convergence," which ultimately came to supplant "harmonization" in the IASC's deliberations and publications [Camfferman and Zeff, 2007, pp. 450-454].

The European Commission expressed support for a large (27-member), geographically representative part-time Board, with a full-time Chairman. The SEC supported a FASB-like full-time Board with at least seven technically expert members. SEC Chief Accountant Lynn Turner played an important role in pushing the SEC's position, often behind the scenes.[74] G. Michael Crooch, Arthur Andersen Partner and IASC Executive Committee member, knew Turner and talked with him frequently about strategy.[75] FASB Chairman Edmund Jenkins likewise worked behind the scenes to encourage the IASC's restructuring.[76] Key G4 players favored a full-time, small, independent international board with technical expert members; any other model would result in the G4 pursuing an alternative solution [Street 2005, pp. 73-76].

Secretary-General Carsberg quickly came to support the SEC's position; his Chairman, Stig Enevoldsen, had to be convinced to abandon the European preferred model. In the end, Enevoldsen came to support the full-time Board, provided it had some part-time members to represent real world thinking on current business developments.[77]

[73] Sir Bryan Carsberg, interview, August 2001.

[74] Michael Sharpe, email to author, July 1, 2004.

[75] G. Michael Croché, interview, March 19, 2007.

[76] Edmond Jenkins, letter to author, September 14, 2008..

[77] Sir David Tweedie, IASB Chairman, and former Strategy Working Party member, interviews, January 9 and 15, January 2002. Confirmed by G. Michael

Enevoldsen and Carsberg had visited several European countries, Japan, and the United States. They participated in discussions at SWP, at the May and November meetings of the International Federation of Accountants (IFAC) Council, at meetings of G4+1 standard setters, and at the G10 Group of professional accounting bodies. They had several meetings with the Chief Accountant of the SEC and with the EC Director General of DG XV, the EU's Directorate for Financial and Company Law. The details of their unicameral model had been developed during these meetings. They hoped

> that the SEC will support the recommended model. We believe that it has the main features which the SEC sees as essential to an acceptable international standard setter. ...The FASB appears to have the same views as the SEC.[78] The SEC has threatened to encourage this [formation of a competing standard-setting body] if it is not satisfied with our proposals.…Board members will wish to consider the probability of formation of a competing body and its consequences for IASC.

Regarding the European Commission:

> The European Commission holds a different view of the preferred IASC structure from that of the SEC.... Board members will wish to assess the risk of loss of support for IAS in Europe following adoption of the recommended model and, in doing so, will consider the significance of the fact that many European companies in practice can use US GAAP for their group accounts at present.

At this point, Michael Crooch (then US IASC Board representative for the AICPA who later succeeded James Leisenring on the FASB) began some extensive telephone diplomacy with the SEC and the SWP Chairman. A detailed compromise was put together on which the SEC was willing to issue a supportive press release. However, this meant that the IASC Board was un-

---

Crooch, former IASC Executive Committee member, who noted that Enevoldsen and Carsberg had independent views. Because both wanted high-quality international accounting standards, and they disagreed about the appropriate organizational model; this was a difficult time for both of them. Interview of Crooch, March 19, 2007.

[78] Stig Enevoldsen, interview, June 20, 2003, indicated that the G4 put tremendous pressure on Carsberg and him, reminding them that they could create their own standard setter. Also, the FASB put tremendous pressure on the IASC, threatening to become the international standard setter. However, Enevoldsen observed, "The IASC had the brand."

able to change anything of significance. Nevertheless, the Board unanimously supported the proposed structure at its November 15-19, 1999, meeting in Venice.

Anthony T. Cope,[79] FASB member and observer at the IASC Board who served on the IASC's Strategy Working Party along with Financial Accounting Foundation Trustee David Ruder, wrote in late 1999: "The FASB is pleased that the IASC Board has accepted the recommendation of its Strategy Working Party to restructure."[80] Cope had good reason to be pleased. He and Ruder had held out successfully for a small, independent international standard-setting board. They were aided by the fact that there were also a few "non-Anglo-Saxons" on the SWP who accepted what their "Anglo-Saxon" friends were proposing. The EC had been contesting the bid by the SEC to have more influence on international standard setting. However, an uncompromising EC letter convinced the SWP that it could not accept the EC's demands, and its decisions were unanimous.[81]

Cope recalled that at the IASC Board meeting (November 15-19, 1999) in Venice, where the Board approved the new structure and constitution, Michael Crooch made the presentation; there were many trans-Atlantic calls during the course of the meeting. The Executive Committee could announce at the meeting that the SEC approved, while Cope could say the FASB supported the deal.[82] At its December 1999 meeting, the IASC Board voted unanimously to appoint the members of the Nominating Committee to select the initial trustees to implement the proposed new structure. The European Commission was not represented, nor was there a Japanese member.

In a January 13, 2000, news release,[83] the Nominating Committee announced that it had had its first meeting and initiated

---

[79] IASC Chairman Michael Sharpe invited Anthony Cope to serve on the Strategy Working Party. Cope, a non-accountant, felt that he represented users of accounts and the interests of the global capital markets rather than the FASB specifically. He saw himself as a strong voice for a small, independent board. Interview, September 9, 2007.

[80] "FASB Supports Proposed New Structure for IASC Board," *FASB Status Report*, No. 204C, December 17, 1999, pp. 2-3.

[81] Georges Barthès de Ruyter, email to author, September 2, 2008.

[82] Anthony Cope, September 9, 2007. Michael Crooch, interview, March 19, 2007, reported that IASC Chairman Tom Jones had asked him to make the presentation; at the time, Crooch wondered whether it was a good idea for an American to make the presentation since some Board members were concerned with the amount of US influence. Former SEC Chief Accountant Lynn Turner confirmed these details, telephone interview, April 9, 2009.

[83] IASC Electronic Archives.

its search and selection process for the nineteen trustees of the restructured IASC. SEC Commissioner Arthur Levitt was named chairman of the Nominating Committee. That first meeting was held in Levitt's Conference Room at the SEC. At its second meeting, held in France, the SEC indicated its interest in recruiting well-known and highly qualified people to the IASCF Trustees. Levitt agreed to recruit Paul Volcker, who subsequently agreed to chair the Trustees.

The meeting of the member bodies of IASC occurred on May 24, 2000, in Edinburgh, Scotland. Enevoldsen urged the member bodies to support the creation of the new structure. The Assembly voted unanimously in favor of the recommendation for the adoption of the new constitution.[84] The trustees established two subcommittees, one to develop plans for assured and adequate financing, and a second to oversee the process of selecting board members.[85] A June 29 press release reported that the Trustees unanimously agreed that Sir David Tweedie, UK Accounting Standards Board Chairman, should become IASB Chairman.

The trustees' nominating committee[86] held interviews for new board members in 2000, which Sir David Tweedie observed. The trustees announced the names of the new board on January 25, 2001;[87] Table 3 lists their names and characteristics. That the basis of selection of new Board members was technical expertise is clear. Eight of the fourteen members were either representatives[88] or observer members[89] of the old Board, yielding significant continuity. David Tweedie, IASB Chairman, has commented that "a key feature of the [IASB] was the number who came from a standard-setting background. The Board had to be able to punch at the same weight as the FASB and, therefore, couldn't afford to have a steep learning curve in front of it."[90]

Having generated donation commitments of more than

---

[84] Minutes of the Ordinary Meeting of the Assembly of Member Bodies of the International Accounting Standards Committee, May 24, 2000, Edinburgh.

[85] Press Release*: Shaping IASC for the Future: First Meeting of IASC Trustees and Appointment of New IASC Board Chair,* June 29, 2000. IASC electronic archives.

[86] Chaired by Ken Spencer, trustee and Australian representative on the old Board.

[87] Press Release: *IASC Trustees Announce New Standard-setting Board to Reach Goal of Global Accounting Standards*.

[88] Jones, Gélard, McGregor, Schmidt, Tweedie, Yamada.

[89] Cope, Leisenring.

[90] Email to author, August 14, 2008.

$75 million over five years, on March 15, 2001, the Trustees announced they had activated the new constitution. FASB Chairman Jenkins, on the formal implementation of the IASB, stated, "It is a critical and welcome event in establishing an independent global standard setter to provide high-quality financial reporting standards to serve our global markets."[91]

Table 3.

Characteristics of the New IASB Board Members

Former IASC Board

Name	**Country***	**Member or Observer**	**Liaison**	**Classification**
Sir David Tweedie	UK	Yes	No	Academic/Std. Setter
Thomas E. Jones	UK/USA	Yes	No	Analyst
Mary E. Barth – PT	USA	No	No	Auditor/Academic
Hans-Georg Bruns	Germany	No	Yes	Preparer
Anthony T. Cope	UK/USA	Yes	No	Analyst
Robert P. Garnet	S. Africa	Yes	No	Preparer/Analyst
Gilbert Gélard	France	Yes	Yes	Auditor/Preparer
Robert H. Herz - PT	USA/UK	No	No	Auditor
James Leisenring	USA	Yes	Yes	Standard setter
Warren McGregor	Australia	No	Yes	Standard setter
Patricia O'Malley	Canada	No	Yes	Standard setter
Harry K. Schmid‡	Switzerland	Yes	No	Preparer
Geoffrey Whittington	UK	No	Yes	Academic/Std. Setter
Tatsumi Yamada	Japan	Yes	Yes	Auditor

PT = part time.
*The first country is the country of birth; the second country indicates the Board member had many years of professional service there.

The first three months of 2001 were taken up with efforts to wind down the old IASC and to get the new IASC Foundation and its Board up and running. In February 2001, a get-acquainted meeting for the new Board was held. Robert Herz, then part-time IASB Member and later FASB Chair, attended that meeting, and recalls that the Board Members discussed the objectives of the IASB. They agreed that the IASB's goal would be to adopt a single set of high-quality international financial reporting standards.[92]

[91] "FASB Supports IASB's Efforts," *FASB Status Report*, No. 217B, February 28, 2001, pp. 1 and 3.

[92] Interview, March 19, 2007.

THE FASB IASB CONVERGENCE PROGRAM

In the early days of its life, the IASB had elaborate protocols for dealing with national standards setters; the FASB was just one of many national standard setters. Over time, however, the working relationships between the two Boards evolved to the point at which, by 2007, most of the major standards projects were joint efforts of both.[93] In January 2002, IASB Chairman Tweedie indicated that he saw the IASB's two main objectives as (1) convergence of US and international standards and (2) the IASB's Improvements Project. Regarding convergence, Tweedie observed, "We must converge—not just adopt GAAP." He noted that at that point the IASB was involved in joint projects with the standard setters of the UK (Performance Reporting), the US (Business Combinations), and France (First Time Application). He also observed that, regarding the IASB's own Improvements Project, the Board was addressing IOSCO's concerns about the Core Standards. The IASB would be "ripping apart" 14 standards with the goal of arriving at a much better set of Core Standards by the end of 2002. Tweedie made it very clear that his objective was a single set of high-quality global accounting standards, at least as good as GAAP, and better whenever possible.[94] In a follow-up interview, he observed, "Convergence does not mean moving to the US standard; it means both of us [the IASB and the FASB] changing." When asked whether he thought the SEC would ever endorse the Core Standards and eliminate the reconciliation requirement, Tweedie replied:

> We are picking off the convergence issues. We have done all the big reconciliation issues already. So, the more we can move those two together over the next 2 or 3 years, reconciliation gains irrelevance....That, I think, will solve the problem for them [the SEC].[95]

Edmund Jenkins, the FASB's fourth Chairman, succeeded Beresford on July 1, 1997. His term saw growing demands for cross-border listings, escalating competition among stock markets, financial crisis in Asia—all forces pushing the demand for international accounting standards [Martinez-Diaz 2005, pp.12-14]. Jenkins had to deal with US accounting scandals, such as

---

[93] Sue Bielstein, FASB Director of Major Projects and Technical Activities, interview, March 19, 2007.

[94] Interview, January 9, 2002.

[95] Interview, January 15, 2002.

Enron,[96] which induced many Americans to examine the rules-based/principles-based debate and look at IASs with new eyes [Eaton 2005, pp. 7-11].

Like his predecessor, Jenkins was an internationalist. He was FASB Chairman in 1999 when the Board issued jointly with the Financial Accounting Foundation (FAF) an important booklet, "International Accounting Standard Setting: A Vision for the Future." The report's stated objective was: "[To] discuss… how the FASB's role may continue to evolve and how its structure and process may change over time in the context of the FASB's objective and goals for participating in the international accounting system of the future."[97] "The timing of this report, during the final deliberations in the IASC over its proposed structure, suggests…an attempt to apply pressure to the IASC to restructure along the lines that were agreeable to FASB" [Eaton 2005, pp. 6-7].

Jenkins and the FASB paid close attention to international accounting developments and actively participated in them. Jenkins wrote the author as follows:

> The FASB's involvement and leadership in the G4+1's efforts to improve the IASC, the work of the SWP, and the final efforts to convince the IASC to change itself into the IASB were crucial to the success of those efforts. [T]here was strong support from others: Australia (Ken Spencer); the UK (David Tweedie); France (Georges Barthès), but it was Tony Cope, Mike Crooch and David Ruder—with Lynn Turner [SEC Chief Accountant] and me working behind the scenes—who made it happen in 2001.[98]

Jenkins's successor was Robert H. Herz, a former part-time member of the IASB and Senior Technical Partner of PricewaterhouseCoopers. Coming straight from the IASB, Herz assumed the helm of the FASB in July 2002—a time of great challenge to that standard-setting body due to the many accounting scandals of the late 1990s/early 2000s, passage of the Sarbanes-Oxley Act of 2002, SEC activism, and the establishment of the Public Companies Accounting Oversight Board (PCAOB). During Herz's chairmanship, SEC activism in international accounting issues

[96] Tweedie noted to the author that Enron had not hurt the IASB. It had actually made people in the US more receptive to international accounting standards. Interview, January 15, 2002.

[97] Introduction, p. vii.

[98] Letter to author, September 14, 2008.

was heightened as it interacted with the FASB and the IASB, eased reconciliation and listing requirements for IASB compliant filers, and the like.

The FASB would experience a shift in emphasis to greater commitment to and involvement in international convergence activities under Herz's leadership. Ed Jenkins reminded the author, "[I]nternational activities at the FASB picked up in the later part of 2002 [at] the time Bob Herz became chairman of the FASB….[T]he newly restructured IASB was then in a position for the first time to work constructively on convergence issues." Herz had a strong international interest and background;[99] gradually, he moved the FASB in the direction of closer cooperation with the IASB. On the FASB Board, Herz indicated that all six of his Board colleagues supported convergence. He noted that Board members G. Michael Crooch, Katherine A. Schipper, and Gary S. Schieneman all had experience in the international arena. And he mentioned that on the IASB Board he could not recall a member who did not support convergence. Thus, on both sides of the Atlantic people were in place to assist the rapprochement of the two Boards.

In the summer of 2002, Herz convened meetings at the FASB to develop action plans, including one on convergence which ultimately led to the Norwalk Agreement later that year. Herz and Tweedie got along very well together. Herz commented, "Maybe we are like-minded. We are both Chartered Accountants." The two men were in weekly contact by telephone, and email. Herz estimated that in 2006, as a result of their attending conferences, joint FASB/IASB meetings, and other meetings, they met each other about 15 times per year.[100]

In his August 2002 "Chairman's Notes," Herz mentioned that the FASB met with members of the IASB and representatives of the SEC's Office of the Chief Accountant to discuss undertaking a project to accelerate international convergence by seeking to eliminate some of the existing areas of difference between GAAP and IASs."[101]

Joint meetings were an effective way for the two Boards to discuss major issues and reach common views. However, such meetings required significant preparation. The Boards met twice

[99] Herz spent his teenage years in Argentina, studied and worked in the UK where he became a Chartered Accountant, and worked on PricewaterhouseCoopers' Global and US boards. Interview, March 19, 2007.

[100] Interview, March 19, 2007.

[101] *Financial Accounting Series No. 235: The FASB Report,* August 30, 2002, p. 2.

a year: at the IASB, London, in April, and at the FASB, Norwalk, Connecticut, in October. Senior staff members met and put together a proposed agenda that was reviewed by both Boards. Chairmanship of the meeting was shared between FASB's Herz and IASB's Tweedie.[102] There were 21 members at joint meetings: seven FASB members[103] and fourteen IASB members.[104] Although the Boards were meeting together, each one voted separately on each issue. That is, a proposal was accepted only if it achieved the required majority support of each Board.[105]

On September 18, 2002, the IASB held a joint meeting with the FASB at its headquarters in Norwalk. The main purpose of the meeting was to discuss projects that the two Boards were already working on jointly or would address jointly in the future in order to increase the international comparability of financial reporting. Prior to the meeting, the staffs of both Boards developed a proposed scope for the Short-Term Convergence Project.[106] Following that meeting, on October 2, the FASB added a

[102] Robert Herz, interview, March 19, 2007.

[103] As of July 1, 2008, FASB had only five members. The voting requirements were 3-2, a simple majority. The FASB Chair had decision-making authority to set the FASB's technical agenda. The FAF observed that the Chair's technical agenda setting authority would give the FASB "the ability to initiate and more quickly respond to pressing issues….This has the added benefit of further facilitating and improving the interface with the International Accounting Standards Board (IASB)." See Financial Accounting Foundation, "Request for Comments on Proposed Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB," December 18, 2007, pp. 4-5.

[104] The IASCF Trustees, in their second five-yearly constitutional review, proposed expanding the size of the IASB to 16 members effective January 1, 2010. While the IASCF Trustees believed that the Constitution's "emphasis on 'professional competence and practical experience' should remain paramount," their Proposal for Change made explicit a geographical component to Board membership with (a) four from Asia/Oceania; (b) four from Europe; (c) four from North America; (d) one from Africa; (e) one from South America; and (f) two appointed from any area, subject to maintaining overall geographical balance. With the growing number of countries adopting IFRSs, the Trustees determined to amend the Constitution with respect to the Board's size and geographical diversity. Thus, paradoxically, the Trustees returned to the geographical representation idea of the Strategy Working Party's bicameral model. On January 29, 2009, the Trustees issued a press release to announce amendments to the IASCF Constitution to: establish a link to a Monitoring Board of public authorities; expand the IASB from 14 to 16 members by 2012 while ensuring geographical diversity; enhance liaison with investor groups; directly address G20 recommendations; and provide free core standards through its public website.

[105] J. Michael Crooch, interview, March 19, 2007.

[106] "FASB-IASB Joint Meeting Supports Convergence," *Financial Accounting Series No. 236: The FASB Report,* September 30, 2002, p. 1. Bielstein, interview, March 19, 2007.

short-term international convergence project to its agenda.[107]

A milestone was reached when, on October 29, 2002, the two Boards issued the Norwalk Agreement. In it, they pledged their best efforts to make their existing financial reporting standards fully compatible as soon as practicable and to coordinate their work programs to ensure that compatibility was maintained through (a) aiming the short-term project at removing a variety of individual differences between GAAP and International Financial Reporting Standards (IFRSs), (b) removing other differences between GAAP and IFRSs by addressing concurrently new, discrete, substantial projects (mutual undertakings), (c) continuing progress on the joint projects they were then undertaking, and (d) encouraging their respective interpretive bodies to coordinate their activities. In addition, both Boards noted that the intended implementation of the IASB's IFRSs in several jurisdictions (the EU member countries) on or before January 1, 2005, would require that they pay attention to the timing of the effective dates of new or amended reporting requirements.

Before and after the Norwalk Agreement, the Boards developed various ways of working together to achieve their shared convergence goals. The FASB's principal cooperative efforts included (1) joint projects conducted with the IASB, (2) the short-term Convergence Project, (3) liaison IASB member on site at the FASB offices, (4) FASB monitoring of IASB projects, and (5) explicit consideration of convergence potential in all Board agenda decisions. Each is discussed briefly below.

1. <u>Joint projects conducted with the IASB</u>**.** Joint projects were those that the two standard setters had agreed to conduct simultaneously in a coordinated manner, with the objective of issuing common standards. In 2008, the FASB and IASB were conducting joint projects to address a common Conceptual Framework, Revenue Recognition, Business Combinations,[108] and Financial Statement Presentation.

2. <u>The short-term convergence project</u>. The scope of the short-term convergence project was limited

[107] The next day, the *Wall Street Journal* reported: "The board that sets US accounting standards formally approved a project to study potential areas of convergence between US and international accounting rules." "FASB Backs Project To Study Unification Of Accounting Rules," October 3, 2002, p. C9.

[108] Business Combinations, Part II, was completed with the issuance of FAS 141R (revised in 2007) and a revised IFRS 3 (issued in January 2008).

to those differences between GAAP and IFRSs in which convergence around a high-quality solution was achievable in the short-term, usually by choosing between the existing IFRS and GAAP guidance. By 2008, progress had been made by both Boards, including: (1) the FASB issued new or amended standards that (a) introduced a fair value option (SFAS 159) and (b) adopted the IFRS approach to accounting for research and development assets acquired in a business combination (SFAS 141R); and (2) the IASB published new standards on borrowing costs (IAS 23 revised) and segment reporting (IFRS 8). With the 2006 Memorandum of Understanding the two Boards shifted their emphasis from short-term to long-term projects. That emphasis remained with the 2008 update to the 2006 MoU.[109]

3. Liaison IASB member on site at the FASB offices. James J. Leisenring, a former FASB Board member, was the IASB member to fill the role of liaison Board member to the FASB.[110] The role was created by the IASB to facilitate information exchange and increase cooperation between the FASB and the IASB. FASB Chairman Herz interfaced regularly with Leisenring, who also attended board and senior staff meetings. Herz observed that Leisenring effectively represented the IASB's views and tried not to let his own views color his representations of them.[111]

4. FASB monitoring of IASB projects. The FASB Board and staff monitor IASB projects, both to gain insights into IASB thinking on issues and to provide the IASB with FASB insights. Monitoring was principally achieved through monthly IASB update meetings led by IASB liaison member Leisenring and held the week after the IASB meeting. They provided the FASB Board and staff the opportunity to learn about IASB decisions and to provide any

[109] Sue Bielstein, interview, January 23, 2009.

[110] Leisenring was the only IASB liaison Board member to the FASB. This formal liaison role was eliminated when his term as an IASB member ended, presumably because the Boards' close working relationship and frequent joint meeting schedule eliminated the need for it. Sue Bielstein, email to author, November 16, 2011.

[111] Robert Herz, interview, March 19, 2007.

insights from a US standard-setting perspective.[112]

5. Explicit consideration of convergence potential in all board agenda decisions. All topics formally considered for inclusion on the FASB's agenda needed to be assessed for the possibilities for cooperation with the IASB.

At their joint meeting in April 2004, the two Boards agreed that, in principle, joint projects were the most practical means of achieving the goal of common standards. Consequently, they reached the decision that new standards in major areas should be developed through joint projects. Both considered how they should approach major projects underway by one but not the other (for example, the FASB had a project underway on liabilities and equity that the IASB was not directly involved in, and the IASB had an active project on accounting for insurance contracts). FASB Board member Ed Trott proposed a modified joint approach to those projects under which one Board would take the lead in developing a discussion paper. After considering constituent input on the paper, the project would become joint and the Boards would work together to develop common Exposure Drafts and final standards.[113]

Another milestone in the Boards' working relationship occurred in late 2004. At the FASB/IASB joint meeting in Norwalk on October 19-20, both decided to add to their agendas a joint project on a conceptual framework to be based upon and build from the existing FASB *Concept Statements* and the IASB *Framework for the Preparation and Presentation of Financial Statements*. The two Boards concluded that differences between their existing frameworks might impede development of common standards in current and future projects.[114] On July 6, 2006, they published the first draft chapters of their joint conceptual framework.

In 2005, SEC Chief Accountant Don Nicolaisen put forward a "Roadmap" for the removal of the reconciliation requirement by 2009 for non-US companies that use IFRSs and register in the US.[115] That Roadmap identified several milestones to be

[112] Sue Bielstein, interview, March 19, 2007.

[113] Sue Bielstein, interview, March 19, 2007, and "FASB and IASB Discuss Plans for the Future," *Financial Accounting Series No. 256: The FASB Report,* May 28, 2004, pp. 1 and 6.

[114] *The FASB Report*. November 30, 2004.

[115] For a look at the Roadmap, see Nicolaisen's "A Securities Regulator Looks at Convergence," www.sec/gov/news/spch040605dtn.htm, and *Northwestern Jour-*

achieved before the SEC staff would recommend removal of the reconciliation requirement. One of those milestones was progress by the IASB and FASB on their convergence work programs.

Also in 2005, the SEC adopted an accommodation to permit foreign private issuers that were first-time adopters of IFRS, for the first year of reporting under IFRS, to file two years instead of three years of IFRS financial statements in their SEC filings.[116] (IAS 1, ¶ 38 requires two years of comparative data.)

Following the issuance of the Roadmap, the FASB and IASB decided to develop and issue a document on the scope of their joint work program and the progress expected to be achieved by 2008. Representatives of both organizations consulted representatives of the European Commission and the staff of the SEC, with the Boards' respective advisory councils and other interested parties.[117] On February 27, 2006, the FASB and IASB issued a Memorandum of Understanding (MoU), "A Roadmap for Convergence between IFRSs and GAAP—2006-08" to communicate their convergence work program.[118]

In developing the MoU, the two Boards agreed on the following principles:

- Convergence of accounting standards can best be achieved through the development of high-quality, common standards over time.
- A new common standard should be developed that improves the financial information reported rather than trying to eliminate differences between two standards in need of significant improvement.
- Serving the needs of investors means replacing weaker standards with stronger standards.

On February 27, 2006, the SEC welcomed the FASB/IASB MoU. SEC Chairman Christopher Cox, who had for weeks publicly stressed the SEC's commitment to the "roadmap" said, "The SEC is working diligently toward the goal of eliminating the existing IFRS to GAAP reconciliation requirement. Achieving that

nal of International Law & Business. Spring 2005. V. 25 (no. 1), pp. 661-686.

[116] "First-time Application of International Financial Reporting Standards," Securities Act Release No. 33-8567, April 12, 2005.

[117] "FASB and IASB Publish Memorandum of Understanding," *Financial Accounting Series No. 278-B: The FASB Report,* March 31, 2006, pp. 1and 3.

[118] Sue Bielstein, interview, March 19, 2007.

goal depends on the contributions of many parties, including US and international standard setters. This important step by IASB and FASB will help ensure that investor protection remains paramount in these efforts."[119]

A key issue at the April 2008 joint meeting of the two Boards was updating the 2006 MoU.[120] On September 11, the Boards issued a joint progress report[121] which noted that, at their joint April meeting, they confirmed their commitment to developing common, high-quality standards and agreed on a pathway to completing the MoU projects by 2011.

On June 20, 2007, in a move that the IASB had been hoping for and expecting,[122] the SEC approved for public comment a proposed rule to accept foreign private issuers' financial statements prepared according to the English language version of IFRS as published by the IASB without requiring reconciliation to GAAP.[123]

On November 2, 2007, in a two-part letter addressed to Ms. Nancy M. Morris, Securities and Exchange Commission, FAF Chairman Robert E. Denham and FASB Chairman Robert H. Herz wrote, "Board members and trustees strongly support the proposal…that US public companies *transition to an improved version* of international accounting standards" (italics added). The main points were: (1) investors would be better served if all US companies used accounting standards issued by a single global financial reporting standard setter; permitting extended periods of choice between GAAP and IFRS would result in a two-GAAP system that would create unnecessary complexity for users of financial statements; (2) the FAF, FASB, SEC, and other affected parties should work together to develop a "blueprint" for transitioning US companies to IFRS— an "'improve-and-adopt' process"; and (3) the SEC should seek international cooperation to identify and implement changes necessary to sustain the IASB and to secure it as the independent global body that promulgates high-quality international accounting standards.

[119] www.sec.gov/news/press/2006-27.

[120] David Tweedie, email to author, August 14, 2008.

[121] Press Release, IASB and FASB publish update to 2006 Memorandum of Understanding. With the 2006 MoU the two Boards shifted their emphasis from short-term projects to long-term projects. That emphasis remained with the 2008 update to the 2006 MoU. Sue Bielstein, January 23, 2009.

[122] Anthony Cope, email to author, August 26, 2008.

[123] "Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to GAAP," Securities Act Release No. 33-8818, July 2, 2007.

Stable and sustainable funding was required, including staffing mechanisms for the IASB, as well as agreements to end the jurisdictional review and endorsement processes that require endorsement of each IFRS after the IASB issues it.[124]

On December 21, 2007, the SEC released a final rule permitting such foreign private issuers to file their financial statements without reconciliation so long as they complied with IFRS issued by the IASB.[125] The SEC allowed IFRS-compliant interim financial statements, and extended indefinitely the two-year accommodation.[126]

Even before the SEC issued the final without-reconciliation rule for foreign private issuers employing IFRS, in light of the ongoing FASB/IASB convergence activities and the movement outside the US toward acceptance of IFRS financial statements, the Commission issued a concept release[127] on allowing US issuers to prepare IFRS-compliant financial statements as a basis of financial reporting.[128]

On August 27, 2008, the SEC issued a press report that the Commission had voted to issue a proposed roadmap that could lead to the use of IFRS instead of GAAP by US issuers beginning in 2014. The proposed multi-year plan would establish a number of milestones that, if achieved, could lead to the use of IFRS by US issuers in their SEC filings. After reviewing the status of the proposed milestones, the Commission would decide in 2011 whether adoption of IFRS was in the public interest and would benefit investors. Chairman Cox said, "The increasing worldwide acceptance of financial reporting using IFRS, and US investors' increasing ownership of securities issued by foreign companies that report financial information using IFRS, have led the Commission to propose this cautious and careful plan.[129]

Although the New York Stock Exchange had reached a high

---

[124] Financial Accounting Foundation, December 18, 2007, pp. 2, 3, 7 and 11.

[125] Also, without EU carve-outs. Hans Burggraaff, email to author, September 8, 2008.

[126] "Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to GAAP," Securities Act Release No. 33-8879, December 21, 2007.

[127] This concept release came as a surprise to the IASB. Anthony Cope, email to the author, August 26, 2008.

[128] "Concept Release on Allowing US Issuers to Prepare Financial Statements Prepared in Accordance with International Financial Reporting Standards," Release No. 33-8831, August 7, 2007.

[129] "Press Release: SEC Proposes Roadmap Toward Global Accounting Standards to Help Investors Compare Financial Information More Easily," sec.gov/news/press/2008/2008-184.htm.

of over 14,000 in October 2007, by September 2008 a worldwide credit and liquidity crisis had engulfed capital markets and raised questions about the application of fair value reporting in inactive markets. In the midst of these developments, the fair value controversy heated up to such an extent that the SEC Office of the Chief Accountant and the staff of the FASB felt compelled to issue a clarifying press release on September 30, 2008.[130] Based on the fair value measurement guidance in FAS No. 157, Fair Value Measurements, the SEC and FASB staffs intended their joint clarifications to help preparers, auditors, and investors address the urgent fair value measurement questions in the depressed economic environment.[131] Within days, the IASB staff concluded that the SEC-FASB clarification was "not an amendment to FAS 157…but rather provides additional guidance for determining fair value in inactive markets…and considers it consistent with IAS 39, *Financial Instruments: Recognition and Measurement.*"[132] In order to converge its standards with the FASB's, the IASB short-cut its own due process. It issued an amendment to permit reclassifications of financial assets under certain circumstances (October 13); proposed enhanced disclosures of financial instruments (October 15); and published guidance for the application of fair value in illiquid markets (October 31).[133]

The worldwide recession of 2008 did not dissuade the SEC from moving ahead with the issuance of its Roadmap for the potential use of IFRS financial statements by US issuers. On November 14, 2008, the SEC posted the proposed Roadmap on its website (sec.gov). It set forth seven milestones, including the implementation of the mandatory staged use of IFRS by US issuers.[134]

---

[130] Shortly thereafter, the FASB issued an FSP that included the guidance in the press release, making it authoritative. Sue Bielstein, March 2009.

[131] Press Release: SEC Office of the Chief Accountant and FASB Staff Clarification on Fair Value Accounting, www.fasb.org/news/2008-FairValue.pdf .

[132] See: International Accounting Standards Board Press Releases: "IASB Staff position on SEC-FASB clarification on fair value accounting," October 2, 2008, and "IASB announces next steps in response to credit crisis," October 3, 2008, at www.iasb.org.

[133] The IASB was criticized heavily for short-circuiting its due process. *World Accounting Report* commented, "In an astonishing *volte-face*, the IASB has had to bow to political pressure and abandon both a key tenet of IAS 39 and its own due process….[The IASB's] independence and credibility have been called into question, and the banking lobby has once again demonstrated its political clout." (pp. 2-3)

[134] Proposed Rule: Roadmap for the Potential Use of Financial Statements Prepared

The SEC proposed to amend its rules to permit a limited number of US companies (estimated to be 110 in 37 IFRS industries) to voluntarily use IFRS for their annual reports, beginning with filings in 2010. In the event the SEC ultimately decided not to issue a rule requiring all US listed companies to use IFRS, these companies would be required to return to the use of GAAP. Nevertheless, by the end of 2008 a sea change had occurred in US financial reporting regulation, with the SEC permitting foreign private issuers to report according to IFRS without reconciliation to GAAP, and with the possibility that the SEC would soon require US listed companies to gradually shift to the use of IFRS.

In addition, the working relationship between the FASB and the IASB in 2008 was different than it was in the early days (2001), when each board had its own projects and there were few joint projects. By 2008, staff members were crisscrossing the Atlantic as they worked together on several joint projects. The Boards' respective agendas were quite similar and both had regularly scheduled joint meetings.[135]

The year 2008 ended with the world deep in recession. On December 30, the FASB and the IASB announced the membership of the Financial Crisis Advisory Group (FCAG), which they had established to consider financial reporting issues arising from the global financial crisis. The two Boards would jointly consider any FCAG recommendations; any decisions by them would "be subject to appropriate and thorough due process." Thus, the global economic recession had driven the Boards to even closer cooperation as they struggled individually and together to respond quickly to the accounting issues that had arisen from the crisis. In the USA, a new president, Barack H. Obama, was elected. In January 2009, he would replace George W. Bush. A new wind would blow across the US capital. In December 2008, the implications for convergence remained to be seen.

SUMMARY AND PROSPECT

The US Financial Accounting Standards Board and the International Accounting Standards Committee were formally established in 1973. In the early years, these two NGOs tended

---

in Accordance with International Financial Reporting Standards by US Issuers (Release No. 33-8982; Nov. 14, 2008), pp. 9-37.

[135] James Leisenring, IASB Member and Liaison to US FASB, interview, June 15, 2007.

to operate more or less in their own spheres. Over time, the relationship between them evolved from distant to IASC Board observer, from occasional partner to full partner holding regular joint meetings with the IASB.[136] By 2008, virtually all of the FASB's major projects were being developed in partnership with the IASB, whose standards had achieved wide acceptance. By 2008, 113 countries had either required IFRS, intended to require IFRS, or permitted their use.[137]

As the two groups grew closer together, the role of FASB's overseer, the SEC, became more and more pronounced. Since adoption of IAS/IFRS by the US has been a major objective of the IASC(B), the SEC, which has the legal responsibility for accounting standards in the US, was bound to take a significant role in the developments.[138] It was a major player in the IASC's restructuring efforts in 1998-2000; and it had a pronounced impact on the subsequent convergence efforts of the IASB and FASB. It even drafted the "roadmap" for acceptance of IFRS statements without reconciliation to GAAP, which, following its publication, further influenced the convergence efforts of both Boards.

In the beginning, the FASB was charged with the formulation of high-quality financial accounting and reporting standards for the US capital markets; the SEC recognized the FASB's standards as "authoritative" and "generally accepted" for purposes of US federal securities laws. The IASC saw its mission as the establishment of high-quality international accounting standards that could be used for world capital markets. Its efforts were not overseen[139] nor subject to approval of a single regulator.[140] In the early years, the FASB's standards were often regarded by others as well as by itself as the finest in the world. On the other hand, the IASC often felt it necessary to defend itself against the charge that, since it allowed a number of alternative accounting treatments, its standards were the lowest

[136] David Cairns, email to author, September 11, 2011. "[A] downside to this is that some other countries think the US has too much influence on IFRS."

[137] David Tweedie, email to author, August 14, 2008.

[138] David Cairns, email to the author, September 11, 2011.

[139] This changed in 2010 with the establishment of an independent Monitoring Group.

[140] David Cairns, email to author, September 11, 2011. "But the role of the monitoring board is different from that of the SEC in the US. The parallel to the SEC's role in the US would be, for example, an international regulator with not only authority over the IASB but also authority over financial reporting requirements in all jurisdictions."

common denominator.

The standards orientations of these two important NGOs have often been perceived as decidedly different. The US FASB has been accused of promulgating high-quality, extremely detailed, complicated rules-based standards. The IASC/IASB has prided itself on its inclination to issue principle-based standards that, over time, have been enhanced as a result of various improvement projects to become high-quality standards. With the accounting scandals in the US in the late 1990s and early 2000s, the US Congress charged the SEC to study the appropriateness of principles-based standards for the US. Moreover, the FASB conducted a study of the appropriateness of such standards. Under the Chairmanship of Robert H. Herz, the FASB embarked on a three-pronged approach to standard setting: improvement, simplification, and convergence. Improvement involved bettering the accounting literature, leading to the FASB's Codification Project. Simplification involved not only having the FASB as the single standard setter, but also codification of the existing US accounting standards and relevant SEC guidance, and trying to improve the understandability of new accounting standards issued by the FASB. Convergence was launched with the Norwalk Agreement of 2002.[141]

Over time, the goals of these two NGOs converged. The FASB expanded its mission to encompass high-quality financial accounting standards for the US and working toward the goal of common standards for the world's capital markets. In addition, both the FASB and the IASC (later IASB) saw the need to converge their respective standards in order that a worldwide set of Generally Accepted Accounting Principles could evolve. By 2008, each organization was involved intimately with the other in a multiyear effort to that end. While the goal of their convergence efforts was common standards, they sometimes fell short of that objective. At times, those differences resulted from factors unique to one jurisdiction or another that would take time to resolve. For example, when the IASB revised its inventory standard, it eliminated the last-in first-out (LIFO) method of inventory valuation. In 2008, LIFO was still an accepted US inventory valuation method that seemed unlikely to go away any time soon due to the LIFO conformity rule of the US Internal Revenue Service, which required use of LIFO for financial

---

[141] Ellen M. Heffes, "For FASB's Herz: 'The Ultimate Destination—A Single Set of Common Standards,'" Financial Executive. v. 23, no. 6, July/August 2007, pp. 12-14.

reporting purposes when used for tax reporting.[142] Thus, while convergence was indeed occurring, differences persisted.

The efforts of the IASB since 2001 had been sufficiently successful that they had convinced both their supporters and their critics, including the SEC, that International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) had become a set of high-quality accounting standards suitable for use by global companies to list on US exchanges without reconciliation to GAAP. The SEC even went so far as to issue a Concept Release in 2007 to investigate whether US-based issuers should be permitted to file and report using IAS/IFRS instead of GAAP financial statements for listing on US capital markets, and to propose, in 2008, a roadmap for achieving their adoption by US firms. Still, in 2008, there existed the simultaneous use of both sets of standards in the US. However, SEC actions in 2007 and 2008 had affirmed the prescient observation of former IASC Chairman Arthur Wyatt that "the ultimate resolution of the standard-setting dilemma internationally…will lie in the hands of the regulators…"(see above.) This certainly had proven to be the case in the US.

Once the FASB and the IASB gradually bring their convergence efforts to completion over the next number of years, what lies ahead? Will the simultaneous use of the two sets of standards, GAAP and IFRS, continue into the long future? (This seems less likely for listed companies, with the August 2008 SEC proposal to permit US issuers to use IFRS.) Will the IASB continue to promulgate high-quality standards now that the original members have retired from the Board? If the world's capital markets perceive a decline in the quality of IFRSs in the future, will the FASB become the *de facto* international standard setter, assuming that GAAP retains its reputation for high quality and that international opposition to American GAAP ceases?

Will the FASB continue to exist if US-based listed companies switch, either voluntarily or involuntarily, to wholesale use of IFRSs?[143] Will there continue to be a need for a US national accounting standard setter, perhaps smaller in size, to serve the needs of non-public companies that might choose to continue to use GAAP? Will the FASB continue to provide advice to the

[142] David Tweedie, email to author, August 14, 2008. "If the US adopts the IFRS then LIFO will be an issue but this issue is already being considered by the [Internal] Revenue Service."

[143] Sue Bielstein observed that, to date, no national standard setter has been eliminated in those countries which have adopted IASs/IFRSs. Interview, January 23, 2009.

IASB?

What will be the role of the SEC in a world of harmonized financial accounting standards for filing, reporting, and listing on US exchanges? What role will the US Congress perceive to be the proper one for the SEC in a world of converged financial reporting standards?

Whatever answers to these questions emerge, it is clear that interesting times are likely to lie ahead for FASB and IASB standard setters as they wrestle with present and future financial accounting standard setting and reporting challenges.

EPILOG

Since December 31, 2008, there have been a number of personnel changes. For example, the Obama Administration named Mary Shapiro Chairman of the SEC. During the fourth year of his second five-year term, Robert Herz, FASB Chairman, resigned, effective September 30, 2010; he was succeeded by Leslie Seidman. Sir David Tweedie, IASB Chairman, completed his second five-year term on June 30, 2011; he was succeeded by Hans Hoogervorst.

The FASB/IASB International Convergence Project has continued, although progress has not been as rapid as originally hoped. Following their joint meeting in London on April 11-14, 2011, the two Boards reported on the progress of their joint convergence work. Since their earlier November 2010 report, the IASB and the FASB have:

1. *Completed five projects:* The Boards have reached important decisions on a number of projects and reduced the number of remaining priority MoU projects to three (revenue recognition, leasing, and financial instruments). Publication of standards that are converged or substantially converged on fair value measurement, consolidated financial statements (including disclosure of interests in other entities), joint arrangements, other comprehensive income, and post-employment benefits were expected in 2011.
2. *Given priority to the remaining MoU areas and insurance accounting:* In November 2010, the Boards decided, in order to achieve timely completion, to give priority to their joint work on three MoU projects—financial instruments, revenue recognition and leases—and on accounting for insurance contracts.
3. *Extended the completion target beyond June 2011:* At their meeting in April 2011, the Boards extended the timetable for the

remaining priority MoU convergence projects and for insurance beyond June 2011. The Boards revised their work plan to focus on completing the three remaining priority convergence projects in the second half of 2011. For insurance contracts, the IASB planned to complete its project by the end of 2011, while the FASB planned to issue an exposure draft in a similar timeframe.

With the progress made since November 2010, the Boards neared the completion of their MoU program, which began in 2002. The short-term projects identified for action in their 2006 MoU and updated 2008 MoU have been completed or come close to completion.

Of the longer-term projects, only three of the priority convergence projects remain for which the Boards have yet to finalize the technical decisions: financial instruments, revenue recognition, and leasing.

In 2008, the Boards set the target date of June 30, 2011, to finalize the MoU projects. At their meeting in April 2011, they agreed that they would spend additional time beyond June to complete this joint work. They were committed to completing the work in the remaining MoU areas during the second half of 2011. This objective was consistent with the recommendations of G20 made at their 2009 Pittsburgh Summit.[144]

In the belief that it was necessary to specify the work required to incorporate IFRS into the US financial reporting system for US issuers, including the scope, timeframe, and methodology for any such transition, in February 2010 the SEC directed the staff of the Office of the Chief Accountant to develop and carry out a Work Plan. This Work Plan was to set forth specific areas and factors to consider before potentially transitioning the current financial reporting system for US issuers to a system incorporating IFRS. Assuming that the Commission determined in 2011 to incorporate IFRS into the US domestic reporting system, the SEC concluded that the first time US issuers would report under such a system would be approximately 2015 or 2016.[145]

---

[144] Progress report on IASB-FASB convergence work, 21 April 2011, www.fasb.org.

[145] Commission Statement in Support of Convergence and Global Accounting Standards, Securities and Exchange Commission, Release No. 33-9109, February 24, 2011, pp. 13-14.

REFERENCES

Atchley, K. (1992), "Meeting of Standard Setters Held at FASB's Offices, October 1992," *Conference Reports*, pp. 154-155.

Bricker, R. J., and Previts, G. J., eds. (2002), *The Murphy-Kirk-Beresford Correspondence 1982-1996: Commentary on the Development of Financial Accounting Standards. Studies in the Development of Accounting Thought.* Vol. 5, Amsterdam: JAI.

Cairns, D. H. (1999), *Applying International Accounting Standards.* 2nd ed. London: Butterworths.

Camfferman, K., and Zeff, S. A. (2007), *Financial Reporting and Global Capital Markets*. Oxford: Oxford University Press.

Eaton, S. B. (2005), "Crisis and the Consolidation of International Accounting Standards: Enron, The IASB, and America," *Business and Politics*, Vol. 7, No. 3, article 4.

Hail, L., Leuz, C., and Wysocki, P. (2010), "Global Accounting Convergence and the Potential Adoption of IFRS by the US," Parts I and II, *Accounting Horizons*, Vol. 24, Nos. 3 and 4.

International Accounting Standards Committee (1999), *Comment Letters on Discussion Paper Shaping IASC for the Future*. London: August 1999.

Kirsch,, R. J. (2006), *The International Accounting Standards Committee: A Political History*. London: CCH/WoltersKluwer.

Martinez-Diaz, L. (2005), "Strategic Experts and Improvising Regulators: Explaining the IASC's Rise to Global Influence, 1973-2001," *Business and Politics*, Vol. 7, No. 3, article 3.

McGregor, W. (1999). "An Insider's View of the Current State and Future Direction of International Accounting Standard Setting," *Accounting Horizons,* Vol. 13, No. 2, 159-168.

Miller, P. B. W., Redding, R., and Bahnson, P. R. (1994), *The FASB: The People, the Process, and the Politics*. 3rd ed. Burr Ridge, IL: Irwin.

Northwestern Journal of International Law & Business. Spring 2005. Vol. 25, No. 1.

Street, D. L. (2005), *Inside G4+1: The Working Group's Role in the Evolution of the International Accounting Standard Setting Process*. London: The Institute of Chartered Accountants in England and Wales.

Teegen, H., Doh, J. P., and Vachani, S. (2004), "The Importance of nongovernmental Organizations (NGOs) in Global Governance and Value Creation: An International Business Research Agenda," *Journal of International Business Studies*, Vol. 35, 463-483.

World Accounting Report (WAR), various issues.

Call for Nominations
The Academy of Accounting Historians
2012 Vangermeersch Manuscript Award

For the attention of prospective and recent post-graduates in accounting history

In 1988, The Academy of Accounting Historians established an annual manuscript award to encourage scholars new to the field to pursue historical research. An historical manuscript on any aspect of the field of accounting, broadly defined, is appropriate for submission.

Eligibility and Guidelines for Submissions

Any accounting faculty member, who holds a full-time appointment and who received his/her masters/doctorate within seven years previous to the date of submission, is eligible to be considered for this award. Coauthored manuscripts will be considered (if at least one coauthor received his/her master/doctorate within the last seven years). Manuscripts must conform to the style requirements of the *Accounting Historians Journal*. Previously published manuscripts or manuscripts under review are not eligible for consideration. Each manuscript should be submitted by **August 1, 2012** in a Word file as an e-mail attachment to the chair of the Vangermeersch Manuscript Award Committee, Professor Richard K. Fleischman (fleischman@jcu.edu). A cover letter, indicating the author's mailing address, the date of the award of the masters/doctoral degree, and a statement that the manuscript has not been published or is not currently being considered for publication should be included in the submission packet.

Review Process and Award

The Vangermeersch Manuscript Award Committee (Dick Edwards, Dick Fleischman, and Lee Parker) will evaluate submitted manuscripts on a blind-review basis and select one recipient each year. The author will receive a $500 (U.S.) stipend and a plaque to recognize his/her outstanding achievement in historical research. In the case of coauthored manuscripts, only the junior faculty member(s) will receive prizes. The winning manuscript will be published in the *Accounting Historians Journal* after an appropriate review. The award will be given annually unless the Manuscript Award Committee determines that no submission warrants recognition as an outstanding manuscript.