Convergence of Accounting Standards World Wide - An Update

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This paper provides an update on the convergence efforts of the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB). In an earlier published paper (2007), the author explored the process of convergence and after nine (9) years would like to incorporate additional information. It will attempt to answer two questions: What are perceived benefits of convergence? What are the obstacles encountered in implementing convergence? The expectation is that increased reliability, consistency, comparability, and transparency of accounting information brought about by convergence of accounting standards would result in more informed decision-making by users of financial reports.

HISTORICAL PERSPECTIVE

The accounting scandals in the U.S. and other countries and the financial crisis in Asia have accentuated the fact that reliable financial reporting is vital to the effective and efficient functioning of capital markets and the productive allocation of scarce economic resources. The failures of Enron, WorldCom, and Parmalat demonstrated the high costs of "window dressed" financial statements not only to particular companies but also to the global economy as a whole. Markets penalize uncertainty. Continued investors' concern on the quality of financial reporting and corporate management will be an impediment to economic growth, job creation, and personal wealth (Tweedel and Seidenstein, 2005). The Sarbanes-Oxley Act of 2002 was the immediate response of the U.S. to curtail unethical accounting and business practices that imposes monetary penalties and/or jail terms for violators. But that is not enough--it is expected that rigorous, improved, and uniform accounting and reporting standards would lessen the risk of corporate scandals, reduce losses and costs to investors/creditors, and restore public confidence world-wide.

THEORETICAL CONSTRUCT – CONCEPTUAL FRAMEWORK

The Financial Accounting Standards Board (FASB) defines conceptual framework as a constitution, a coherent system of interrelated objectives and fundamentals that can lead to consistent standards that prescribe the nature, function, and limits of financial accounting and reporting (FASB, 1976). The fundamentals are underlying concepts of accounting that guide the selection of events to be accounted for, the measurements of those events, and the means of summarizing and communicating them to interested parties. In 1973, the Financial Accounting Standards Board, in an effort to provide a set of cohesive objectives and fundamental concepts on which financial accounting and reporting can be based, issued seven Statements of Financial Accounting Concepts (SFACs). Later, SFAC 8 has been added and the others were either superseded or incorporated into the remaining SFACs. To date only SFAC 8, 7, 6, and 5 are the conceptual frameworks that provide structure and direction to financial accounting and reporting, although not considered Generally Accepted Accounting Principles (GAAP). SFAC 8 discusses the objectives and the qualitative characteristics of useful financial information; SFAC 7 describes how cash flows and present values are used when making accounting measurements; SFAC 6 defines the accounts and accrual accounting concepts that appear in financial statements; SFAC 5 discusses recognition and measurement concepts. Previous SFACs have been superseded or pertain to not-for profit organizations (Spiceland et al, 2016).

The conceptual framework in the U.S and IFRS are similar and are converging with on- going efforts by FASB and IFRS. In the U.S. GAAP, the conceptual framework is merely a guide to standard setters in promulgating accounting standards. In IFRS, conceptual framework is not used as guidance for setting standards, but additionally provides a basis for practitioners to make accounting judgments when another IFRS standard does not apply. Also, IFRS emphasizes the overarching concept of the financial statements providing "true and fair representation" of the company. U.S. GAAP does not include a similar requirement (Spiceland et al, 2016).

Enhancing Qualitative Characteristics

Three enhancing qualitative characteristics that are important to decision usefulness are comparability, consistency, verifiability. C*onsistency* is the use of the same accounting practices over time that permits valid comparisons among different accounting periods. *Comparability* is the ability to help users see similarities and differences between events and conditions, to compare information across companies to make their resource allocation decisions. Consistency of accounting practices over time permits valid comparison among different reporting periods. *Verifiability* means that there is a consensus among different users based on objective and documented evidence that the information provided is a faithful representation of what it is intended to depict (Spiceland, et al, 2016).

STATEMENT OF THE PROBLEM

Many corporations are multinationals having business operations in different countries around the globe. However, the problem is that accounting standards differ from country to country due to differences in the legal system, levels of inflation, culture, degrees of sophistication and use of capital markets, and political and economic ties with other countries. These differences cause huge problems for multinational companies. Companies doing business in other countries experience difficulties in complying with multiple sets of accounting standards to convert financial statements that are reconciled to the GAAP of the countries they are dealing with. This process called reconciliation is very costly, time-consuming, and a waste of scarce resources. Consequently, different national standards may become an impediment for companies desiring to obtain capital or make investments in the international markets.

METHODOLOGY

This paper will provide updates on the process of convergence and will attempt to find answers to two important questions about convergence of accounting standards: (1) What are the perceived benefits of convergence? And (2) What are the obstacles encountered in implementing convergence? Proposed solutions will also be discussed.

THE PROCESS OF CONVERGENCE

In response to the problem, the International Accounting Standards Committee (IASC) was established in 1973 to develop international accounting standards. In 2001, the IASC created a new standard setting body called International Accounting Standard Board (IASB). The objective is to identify the best accounting standards to be followed in the financial accounting and reporting of all countries around the world. The IASB's objectives are (1) to develop a single set of high quality, understandable global accounting standards, (2) to promote the use of these standards, and (3) to bring about convergence of national and international accounting standards. The IASC issued forty one (41) Accounting standards (IASs) which were endorsed by the IASB in 2001. IASB has made revisions and has issued sixteen (16) standards of its own called International Financial Reporting Standards (IFRS) presented on (Table 1) updated as of January 2016. While IASB has no authority to enforce these standards, since compliance is voluntary, many countries have based their national standards on international accounting standards.

TABLE 1
SUMMARY OF IAS/IFRS (UPDATED AS OF JANUARY 2016)

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events After the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Accounting for Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 31	Financial Reporting of Interests in Joint Ventures
IAS 32/39	Accounting for Financial Instruments
IAS 32/39 Part 2	Hedge Accounting
IAS 32/39 Part 3	Derecognition of Financial Instruments
IAS 33	Earnings per Share
IAS 34	Interim Financial Statements
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 40	Investment Property

IAS 41	Agriculture
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interest in Other Entities
IFRS 13	Fair Value Measurement
IFRS 14	Regulatory Deferral Accounts
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS Help	IFRS Help

Source: http://www.ifrs.org/IFRSs/Pages/IFRS.aspx

FASB AND IASB

Over the years the FASB and the IASB have been working together to converge to one global set of accounting standards. Table 2 summarizes the steps they have undertaken towards the road of convergence (Spiceland, 2016):

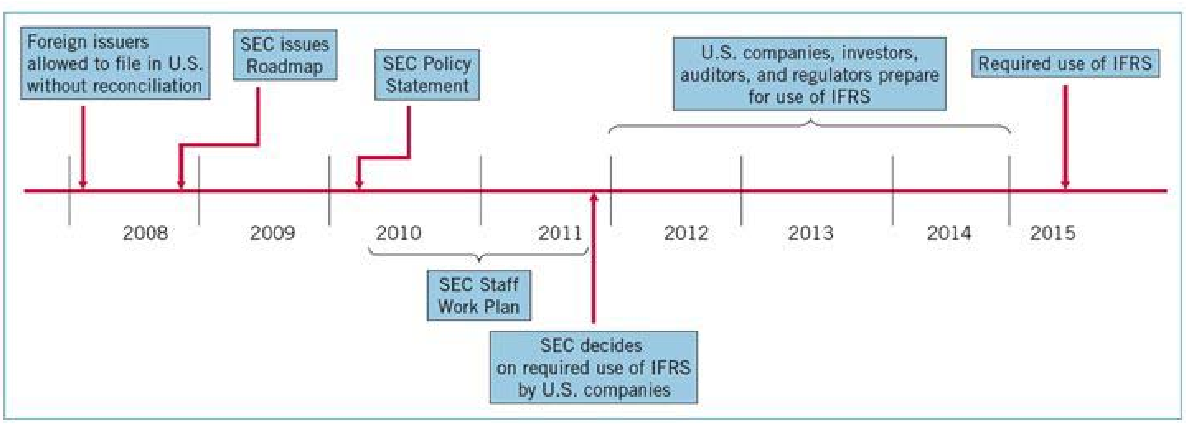
TABLE 2
EFFORTS OF FASB AND IASB TO CONVERGE U.S. AND INTERNATIONAL ACCOUNTING STANDARDS

1973	International Accounting Standards Committee was formed in 1973. Thereafter, IASB created IASB (International Accounting Standards Board) to develop single set of global accounting standards, to promote its use, and to bring convergence of national and international accounting standards.
September 2002	FASB and IASB signed the Norwalk Agreement, a memorandum of understanding (MOU) that formalized their commitment to converge U.S. GAAP and IFRS. The two boards agreed to remove existing differences between the standards and to coordinate their future standard-setting agendas and work on major issues together. Recent standards issued by both standard setters are based on these objectives.
December 2007	SEC removed the requirement for foreign entities that issue stocks in the U.S. to include in their financial report a reconciliation of IFRS to U.S. GAAP. This allowed foreign companies to have access to U.S. capital markets using IFRS based financial reports.

April 2008	To accelerate the convergence efforts, FASB and IASB focused on a subset of key convergence projects such as earnings per share, share based compensation, non-monetary exchanges, inventory costs, and the calculation of fair value, and accounting for leases.
November 2008	SEC issued a Roadmap (Figure 1) with milestones that include completion of key convergence projects, improving the structure and funding of IASB and updating the education and licensing of U.S. accountant.
November 2011	SEC issued two studies: Comparison of GAAP and IFRS and analyses of how IFRS are applied globally. SEC identified key differences between the U.S. GAAP and IFRS and noted that U.S. GAAP provides more guidance about particular transactions or industries. SEC also noted that there is diversity in the application of IFRS indicative of non-comparability of financial statements across countries and industries.
July 2012	SEC staff issues its final report with a conclusion that it is not feasible for the U.S. to simply adopt IFRS. It recommended alternative approaches such as endorsing individual IFRS for incorporation into the U.S. GAAP or maintaining the current approach of FASB and IASB working together to converge standards.

In 2008, SEC published a "Roadmap for The Potential Use of Financial Statements prepared in accordance with International Financial Reporting Standards by U.S. Issuers" (SEC, 2008) that delineates the steps needed to converge U.S. GAAP and International Financial Reporting Standards. This 'roadmap' would apply to public companies and had two important dates: in 2011 a decision by the SEC would be made to determine whether to proceed with rulemaking to require IFRS adoption. If the decision were affirmative, adoption would be required in 2014 (SEC, 2008).

FIGURE 1
SEC ROADMAP 2008



The SEC roadmap set forth milestones that could have led to the adoption of IFRS by U.S. issuers in 2014 while encouraging early adoption by 2011. In February 2006, the FASB and IASB issued a Memorandum of Understanding (MoU). The MoU set forth the relative priorities within the FASB-IASB joint work program in the form of specific milestones to be reached by 2008. That MoU was based on three principles: (1) Convergence of accounting standards can best be achieved through the development of high quality, common standards over time; (2) Trying to eliminate differences between two standards that are in need of significant improvement is not the best use of the FASB's and the IASB's resources—

instead, a new common standard should be developed that improves the financial information reported to investors; and (3) Serving the needs of investors means that the Boards should seek convergence by replacing standards in need of improvement with jointly developed new standards. Based on the progress achieved by the Boards through 2007 and other factors, the SEC removed the reconciliation requirement for non-U.S. companies that are registered in the United States and use IFRSs as issued by the IASB (SEC, 2008).

The IASB and the FASB have taken a flexible approach to convergence and are focusing on issuing standards of the highest quality possible regardless of where the principles underlying them originated. The process is that in developing high-quality standards, standard setters may opt for either FASB or IASB guidance. If neither is adequate, they may follow a third jurisdiction's standard or develop a completely new standard. The approaches taken by the two boards on items in the income statement below the income from continuing operations demonstrate this flexible approach, to illustrate: (1) IFRSs converge to U.S. GAAP on Discontinued Operations, (2) U.S. GAAP converges to IFRs in Accounting Changes, and (3) IASB and FASB developed a new standard together with regards to Extraordinary Items (Herrmann and Hague (2006).

Since the publication of the roadmap, many debates have taken place from various stakeholders. The discussions dwelt on the main difference between U.S. GAAP and IFRS: U.S. standards are based on precise rules while the international standards are more general and principles based, providing companies more flexibility to use professional judgment in revenue recognition and other key areas. The concern was that IFRS international standards are subject to various interpretations which could reduce comparability of reported financial information. Another concern is the high cost of IFRS implementation.

Events since 2009 that included the changes in the U.S. presidency and in SEC administration have slowed down convergence efforts. The SEC director has decided to delay the transition to 2016 at the earliest. In January 2009, during the confirmation hearing for her appointment as SEC chair, Mary Schapiro stated, "I will take a big deep breath and look at this entire area again carefully and will not necessarily feel bound by the existing roadmap that's out for comment." Subsequent comments indicated that investor protection was her first and foremost priority, and that she would deal with other more pressing issues before international accounting standards. At the same time, other comments she made indicated that she was in favor of a single-set of high-quality accounting standards (Millman, 2009).

Katz (2014) reported that the major goals on the IASB and FASB convergence agenda were to fix deficiencies in both U.S. GAAP and in IFRS, and eliminate certain differences between the two sets of standards. Former FASB Chairman, Russell Golden in an e-mail sent to CFO stated that business combinations, non-controlling interests, fair value measurements, borrowing costs, segment reporting, stock compensation, and non-monetary exchanges were standards that were improved and aligned. Both IASB Chairman Hans Hoogervorst and FASB Chairman Russell Golden regarded the joint standard on revenue recognition issued on May 28, 2014 as the crowning achievement of convergence. In the United States, the new standard will start to be implemented effective for annual reporting periods beginning after December 2016. According to FASB, the guidance alone aligned a major area of financial reporting that affects all companies, institutions, and not-for-profit organizations worldwide (Katz, 2014).

However, leases and financial instruments were currently no longer on the table for convergence, referred to as "divergence" (Katz, 2014). The two Boards will issue separate non-converged standards brought about by differences in the cultural, business, legal, and regulatory environments in different jurisdictions. On leases, after five (5) years of deliberations, having reached a fundamental agreement that leases longer than 12 months should be reported on corporate balance sheets, the two boards announced their decision at an August 27, 2014 joint meeting to approach lease reporting differently. The split boiled down to a disagreement about whether lessee accounting should follow a dual or a single approach. FASB decided on the dual approach that includes two types of leases: Type A, which would consist of mostly capital leases; and Type B, mostly operating leases. For both types of leases, companies would be required to recognize on their balance sheets the right to use the leased property or equipment and the interest on the lease payments. IASB decided on a single approach, requiring lessees to account for all leases according to the Type A method. As a result of the disagreement, both boards issued separate non-converged standards (Katz, 2014).

IMPACT ON ACCOUNTING EDUCATION

While discussions proliferate and confusion intensifies relative to the timing and the roadmap of international standards, several questions arise regarding the academic training of accounting graduates. Bandyopadhyay and McGee (2012) concluded that the urgency of curriculum change in light of convergence is now felt by the accounting teaching profession in the U.S. The majority of accounting professors are either currently covering all or will be covering IFRS together with U. S. GAAP in Intermediate Accounting courses and other upper level courses. Publishers of accounting textbooks have included better coverage of IFRS. The AICPA CPA exams started including questions on IFRS in 2011 (Bandyopadhyay and McGee, 2012).

COUNTRIES MOVING FORWARD WITH CONVERGENCE

Many countries have agreed to adopt IFRS for publicly traded companies either by January 2005 or January 2007. The European Union has adopted a regulation that requires publicly traded companies to follow IFRS which have been approved in a European Union (E.U.) endorsement process, for their consolidated accounts starting January 2005. This legislation applied to 8,000 companies in 30 countries including France, Germany, Italy, Spain, and the United Kingdom (Mirza, et al, 2008).

PricewaterhouseCoopers (2014) collected information from a variety of sources relative to the adoption and/or plan to convert to the International Financial Reporting Standards (IFRS). A total of 148 countries/territories have adopted/converted to the IFRs presented on Table 3.

TABLE 3
COUNTRIES/TERRITORIES ADOPTING/CONVERGING TO THE 1FRS (148)

North America	South America	Europe	Asia	Africa	Oceana
Antigua and Barbuda	Argentina	Albania	Afghanistan	Algeria	Australia
Aruba	Bolivia	Austria	Armenia	Angola	New Caledonia
Bahamas	Brazil	Belarus	Azerbaijan	Botswana	New Zealand
Barbados	Chile	Belgium	Bahrain	Cameroon	Papua New Guinea
Bermuda	Columbia	Bosnia and Herzegovina	Cambodia	Chad	
British Virgin Islands	Ecuador	Bulgaria	China	Cote D"Ivoire	
Canada	Paraguay	Channel Islands	Hongkong	Democratic Republic of Congo	
Cayman Islands	Peru	Cyprus	India	Egypt	
Costa Rica	Uruguay	Czech Republic	Indonesia	Equatorial Guinea	
Dominican Republic	Venezuela	Denmark	Israel	Gabon	
Dutch Caribbean		Estonia	Japan	Ghana	
El Salvador		Finland	Jordan	Guinea Conakry	
Guatemala		France	Kazakhstan	Kenya	
Honduras		Georgia	Korea (Republic of Korea	Libya	

Jamaica		Germany	Kuwait	Madagascar	
Mexico		Greece	Kyrgyz Republic	Malawi	
Nicaragua		Greenland	Laos	Mauritius	
Panama		Hungary	Lebanon	Morocco	
St. Kitts and Nevis		Iceland	Macao Special Administrative Region	Mozambique	
St. Lucia		Ireland	Malaysia	Namibia	
Trinidad and Tobago		Isle of Man	Mongolia	Nigeria	
United States		Italy	Oman	Republic of Congo	
		Kosovo	Pakistan	Rwanda	
		Latvia	Philippines	Senegal	
		Lithuania	Qatar	South Africa	
		Luxemburg	Saudi Arabia	Swaziland	
		Macedonia	Singapore	Tanzania	
		Malta	Sri Lanka	Tunisia	
		Moldova	Taiwan	Uganda	
		Montenegro	Thailand	Zambia	
		Netherlands	Turkey	Zimbabwe	
		Norway	United Arab Emirates		
		Poland	Uzbekistan		
		Portugal	Vietnam		
		Romania	West Bank/Gaza		
		Russian Federation			
		Serbia			
		Serbia			
		Slovak Republic			
		Slovenia			
		Spain			
		Sweden			
		Switzerland			
		Ukraine			
		United Kingdom			

Source: PWC-IFRS by –country – 2014 All data is based on the survey conducted in June-July 2014, except the data for Guatemala, Jordan, United Arab Emirates, Malawi, Mozambique, Botswana, and Algeria, which was last updated in April 2013.
http://www.pwc.com/us/en/issues/ifrs-reporting/publications/assets/pwc-ifrs-by-country-2014.pdf

Apergis et al (2014) investigated the convergence of accounting standards levels across 27 countries for the period 2000 to 2012. The objective is to determine whether countries that have not completely adopted IFRS have displayed a tendency to do so. The new panel convergence methodology by Phillips and Sui (2007) was used. The empirical findings indicated that countries form distinct convergence club on a limited prevalence, supporting the notion that on a global basis firms and countries have initiated processes that will eventually lead them to a uniform pattern of employing common accounting standards. The study used earning management approach in measuring accounting standards convergence. The empirical analysis used cash flows, total assets, and net income data. The authors selected firms that have adopted the IFRS and firms that have not adopted IFRS on a country basis. The empirical findings showed the existence of two groups of countries with different phases on IFRS convergence with twenty two (22) countries and the third group consisting of five (5) non-converging (continuing to follow their own domestic accounting standards) groups of countries): Canada, China, Philippines, Russia, and the USA. The empirical findings were indicative that countries examined do not form a homogeneous convergence club and have different idiosyncratic accounting conditions that are responsible for their convergence. The number of distinct convergence groups that are formed is limited, yielding support to the process of convergence on a global basis (Apergis et al, 2014).

PERCEIVED BENEFITS OF CONVERGENCE

As the business environment becomes increasingly global and companies are listed on the stock exchanges in many countries, the need for consistent worldwide reporting standards becomes more apparent. IFRS, formerly known as International Accounting Standards (IAS), clearly addresses this issue. Its objective is to create comparable, reliable, and transparent financial statements that will facilitate greater cross-border capital raising and trade. Deloitte & Touche (2003) summarized the perceived benefits associated with convergence to the International Financial Reporting Standards:

- For companies: reduced costs of capital and the ease of using one consistent reporting standard from subsidiaries in many different countries,
- For investors: better information for decision-making, leading to broader investment opportunities,
- For national regulatory bodies: better information for market participants in disclosure based-system.

Bandyopadhyay et al (2012) study indicated that the main benefits expected from having one set of accounting standards are: (1) better comparability of financial statements of companies from different nation states, (2) facilitation of global trade and world capital markets, and (3) a lower cost of capital.

Consistent application of accounting standards that are the same for companies around the world would result to better comparability of financial information resulting in more informed decision-making. For regulators, the confusion associated with needing to understand various accounting standards would be reduced. For auditors, a single set of accounting standards would enable international auditing firms to standardized training and better assure the quality of their work on a global basis.

OBSTACLES TO CONVERGENCE/ADOPTION FULL IMPLEMENTATION

While many countries are now moving towards adoption and/or convergence to IFRS, there are many obstacles to full implementation. Taub (2003) reported that in the GAAP Convergence 2002 Project conducted by the six largest accountings firms, BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG, and PricewaterhouseCoopers in GAAP Convergence 2002 Project, the problems identified were:

- 51 percent (51%) of the respondents cited the complicated nature of particular standards as the biggest impediments to achieving IFRS convergence.
- 47 seven percent (47%) of the respondents cited the tax-driven nature of their national standards as a potential problem. Many countries are limiting implementation of IFRS to listed companies, instead of extending it to all companies.
- The next three biggest problems are: (1) limited capital within their countries, (2) satisfaction with national accounting standards among investors/users, and (3) translation difficulties of IFRS to the individual countries language. While translations of international accounting standards are available in 70 percent (70%) of the countries covered in the survey, in many cases the translations were not sanctioned by the IASB. In nearly one-third (1/3) of the countries where IFRS is available in the national language, the translations were not considered to be available quickly.

- IFRS training was also identified as a problem. While IFRS is part of the university curriculum in 80 percent (80%) of the countries covered, more than one third (1/3) of those countries conceded that coverage was still limited or offered by only a few universities within the country.

In a recent article, Angeloni (2016) discussed the standard-setting process and examined possible advantages of global IFRS reporting and reviewed some difficulties in their implementation. The study concluded that the differences in local capital markets, enforcement institutions, and economic environments appeared to be very strong deterrent to a uniform implementation of IFRS around the world. The research indicated that the convergence process between the FASB and the IASB could be an ideal mechanism to reduce the costs of communicating information among various stakeholders worldwide, but the feasibility of this process and the achievement of benefits are not certain outcomes. The recommendation was to proceed with caution in the global adoption of IFRS.

Mohammadrezaei, et al (2014) study of Iran process of converting to IFRS concluded that different business, financial, legal, cultural, accounting, and auditing environments are the most important environmental challenges to achieve full convergence in Iran. Complexity of the standards, translation problems, knowledge and awareness deficiency, conflict with legal mechanism, and problems with fair value measurement requirements are additional challenges in the implementation of IFRS in Iran.

Tschopp et al (2014) argued that comprehensive, rigid rule-based standards, such as US Generally Accepted Accounting Principles (GAAP) may not be appropriate for all nations, just as the interpretive, principles-based International Financial Reporting Standards (IFRS) may not be appropriate to the unique social, political, and economic environment of some countries. They stated that there are many countries that have resisted adopting IFRSs. US GAAP rule-based standards are viewed as too stringent by some corporations who prefer a more flexible, principle-based method of reporting. In addition, the primary reason that many nations resist the adoption of IFRSs is that their regulatory bodies believe the standards are too open to interpretation. IFRSs are more principle-based standards as opposed to some domestic standards, such as US GAAP and Canadian GAAP, which are more rules-based standards. The concern is that principles-based standards provide more of an opportunity to companies to manipulate what is being reported, thus reducing the principles of comparability and reliability. Also, many countries may wish to avoid transparency on some of these issues since any visibility into social or environmental problems could damage investment individually or to the region.

Bandyopadhyay et al (2012) study enumerated some disadvantages of international harmonization: (1) International standards could not be flexible enough to handle differences in national backgrounds, traditions and economic environments; (2) It would be a politically unacceptable challenge to national sovereignty; (3) Tax-collection systems vary internationally. Since this requires diversity in accounting standards and systems used internationally, it creates "standards overload"; (4) Corporations that must respond to an ever-growing array of national, social, political and economic pressures are hard pressed to comply with additional complex and costly international requirements.

Many believed that the reluctance of the US to adopt IFRSs has prevented IFRSs from being a truly globally accepted standard. Even though the US SEC has agreed in principle to a convergence of US GAAP and IFRSs, they are reluctant to take any action that would reduce the quality of the existing standards. US GAAP is widely viewed as the most stringent and comprehensive set of standards providing the foundation for the most respected and reliable financial market. The SEC, through the FASB, relies on detailed accounting rules that limit interpretation to best protect US investors.

Holzmann and Munter (2016) reported that as the FASB has completed its convergence agenda with the (IASB), it has added a simplification initiative to its agenda as one of the points of focus going forward. The simplification initiative is “a tightly-focused initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects.” The projects are intended to improve or maintain the usefulness of the information reported to investors while reducing cost and complexity in financial reporting.

To date, the FASB has completed five projects from the simplification initiative: (1) customer's accounting for fees paid in a cloud computing arrangement, (2) extraordinary items, (3) measurement date of defined benefit pension plan assets, (4) presentation of debt issue costs, and (5) simplifying the measurement of inventory. The FASB has several other simplification projects on its agenda, including (1) simplifying the accounting for measurement period adjustments, (2) balance sheet classification of debt, (3) accounting for income taxes, (4) stock compensation, and (5) equity method of accounting. The Board's current commitment is to accounting standards simplification (Holzman and Munter, 2016).

PROPOSED SOLUTIONS

A proposed solution to the convergence problem posited by Leuz (2010) was to create a global player that could be administered by a supra-national body (like IOSCO), to meet the needs of globally operating firms. Another solution was posed by Hail, et al, (2010b) that included the development of a new version of "International US GAAP", which can be adopted by other countries to serve as a global alternative to IFRS. In the 2009 IFRS updates, comments indicated that one group preferred a convergence (as opposed to a certain time for adoption) of IFRS. This group was of the opinion that the SEC and the IASB should let the convergence process work and publish future standards that are jointly adopted by both organizations. This would allow U.S. companies to transition to IFRS in a natural progression. Others believed that an adoption deadline is the only way to proceed since IFRS would never remain intact if convergence were to be chosen. However, even this group thought the timeline was not long enough. They believed that it would take at least four years to get ready for IFRS. The majority believed the ultimate goal should be one set of high-quality, globally accepted accounting standards. However, without a clear SEC mandate, it would be impossible to reach that goal (Gannon, 2009). Paul Pacter, a former member of the IASB from 2010 to 2012, stated that adoption is the only way to achieve a single set of global reporting standards. In his opinion, convergence is a short term strategy for a jurisdiction and may facilitate adoption over the transition period. He added that convergence is not a substitute for adoption. Adoption mechanism may vary among countries and may require a considerable amount of time to implement, but, whatever the mechanism, it should enable and require particular entities to state that their financial statements are in full compliance with IFRSs (Pacter, 2013).

CONCLUSION

The move towards convergence of accounting standards worldwide was accelerated with the restructuring of the IASC and the formation of the IASB. The goal of IASB is convergence which means identifying the best in standards around the world and creating a body of accounting standards that constitute the "highest common denominator of financial reporting." The convergence is expected to improve both existing financial reporting and consistency across borders. The primary objective of the FASB is to have one set of agreed upon global accounting standards stating that ''a reasonably complete set of unbiased accounting standards that require relevant, reliable information that is decision useful for outside investors, creditors, and others who make similar decisions would constitute a high quality set of accounting standards'' (FASB, 1998). The resulting efficiencies achieved from harmonized accounting standards come from the increased comparability and reliability of information.

The perceived benefits of having one global set of accounting standards include: better comparability of financial statements of companies from different nation states, facilitation of global trade and world capital markets, and lower cost of capital. Increased reliability, consistency, comparability, and transparency of accounting information would result in more informed decision-making on the part of both internal and external users of financial reports globally. Having an international approach for accounting would allow international capital to flow freely, enable auditing companies and other clients to develop consistent global practices for accounting problems. The removal of the barriers for capital flows and the provision of better information for cross-border investments would make the allocation of capital more efficient which in turn would enhance economic performance, reduce market risk, and provide welfare gains.

However, there are numerous obstacles and challenges to be faced on the road to IFRS convergence:

- Complicated nature of particular standards
- International standards could not be flexible enough to handle differences in national backgrounds, traditions, legal systems, and economic environments
- Principles-based standards provide more of an opportunity to companies to manipulate what is being reported, thus reducing the principles of comparability and reliability
- Tax laws vary internationally
- Limited capital within countries
- Translation difficulties of IFRS to individual countries
- Inadequate IFRS Training
- High cost of implementation

Some proposed solutions include: (1) the creation of a global player that could be administered by a supra-national body (like IOSCO) to meet the needs of globally operating firms, (2) the development of a new version of "International US GAAP", which can be adopted by other countries to serve as a global alternative to IFRS, and (3) outright adoption (full compliance to IFRS) instead of convergence because convergence is a short term strategy.

Whether global harmonization of accounting standards is ever actually achieved will be dependent on how successful negotiations are between the IASB and countries that have resisted adopting IFRSs. There are multitudes of existing reporting methods each with different content specifications and there are various stakeholders involved in the adoption of a standard, making it difficult to arrive at a consensus on one set of international accounting standards.

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