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Accounting Globalization: Roadblocks to IFRS Adoption in the United States

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The paper reports on an Our Lady of the Lake University McNair Scholar Daniel Marshall's research exploring the viability of the SEC's current "roadmap" or time-line for the convergence of U.S. GAAP with IFRS. Survey subjects were members of the American accounting profession, CEOs, industry executives, and members of academia. The survey focused on the existing and proposed IFRS guidelines and its anticipated 2016 IFRS adoption. The data collected supports a contention that the current time-line goals established by the SEC for adoption of IFRS in the United States are not realistic in light of five identified convergence and adoption roadblocks. Building on literature and research, this paper analyzes these five roadblocks to successful IFRS implementation, disputes the viability of the existing SEC time-time and quantifies the time needed to address these challenges by offering a more factor-considerate time-line for IFRS adoption and integration.

Field of Research: Financial Accounting, Contemporary Issues in Accounting, IFRS

1. Introduction

The genesis of the movement for the world-wide adoption of International Financial Reporting Standards (IFRS) for financial accounting purposes was in 1997. For its part, the United States' Securities and Exchange Commission (SEC) urged Congress to support the efforts of world-wide accounting and business professionals in developing a single uniform set of international accounting standards. The development of these standards was entrusted to the International Financial Accounting Standards Board (IASB), the international counterpart to the United States' Financial Accounting Standards Board (FASB). By adopting a consistent set of global financial standards, the inconsistencies in financial reporting methods across country and continent borders would be eliminated. For the past decade, members of the accounting

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profession have been anticipating the adoption of the IFRS (Securities and Exchange Commission, 2010); however, numerous roadblocks exist to adoption of IFRS within the United States. This paper focuses on the current proposed IFRS time-line of 2016 implementation and identifies five major roadblocks to American IFRS integration and implementation and correlates these to a research project's results conducted by McNair Scholar, Daniel Marshall, of Our Lady of the Lake University. This paper seeks to answer the question: Is the proposed SEC time-line for American GAAP-IFRS integration and adoption viable?

2. Literature Review

In the late 1990s, a movement within the international business and accounting professional communities to standardize globally financial accounting reporting methods and practices was initiated. Since that time, both American and international governmental, professional accounting organizations, governing bodies, business leaders and regulatory administrators have written extensively concerning the benefits and disadvantages of the implementation of a single global accounting standard. Extensive literature prepared by the FASB and IASB exists detailing the treatment of and differences in accounting principles among industrialized nations; however, only one major study, completed by KPMG LLP, an international audit, tax, and management advisory firm, and the American Accounting Association (AAA) has been conducted to gauge perceptions about the state of IFRS preparedness in the United States. The KPMB-AAA study surveyed only post-secondary accounting academicians. The KPMG-AAA joint survey project collected the responses of 500 American university accounting professors and assessed the current state of IFRS preparedness among faculty in American post- secondary accounting programs. The results documented four key areas of concern: lack of urgency, inadequate knowledge of IFRS subject matter, course time constraints and lack of university funding to implement IFRS-based academic classes ("KPMG-AAA" 2009). Results from a student-generated research project form the basis of the comparative data within this paper.

3. Methodology and Research Design

Daniel Marshall's McNair Scholar Research Project was conducted June-August 2010, at Our Lady of the Lake University in San Antonio, Texas and aimed to investigate survey participants' attitudes, perceptions and recommendations regarding the proposed 2016 IFRS implementation time-line and to elicit the types of roadblocks existing to final IFRS adoption within the United States. Marshall's study was conducted through a series of surveys and personal interviews of accounting professionals from diverse accounting disciplines and business backgrounds as follows: Professors of Accounting, CEO/CFO, Auditor, Banking, Non-Profit, Tax, and Bookkeeping working within the continental United States. There was no need for knowledge of the individual's gender, age, or race and no systematic sampling plan was used when selecting candidates. Only survey candidates fitting the qualifying criteria participated in the study. All participants received and signed an approved informed consent form that outlined the process as well as any personal benefit to be derived from the study. While the KPMG-AAA study focused on academic faculty specifically, the Marshall study expanded the sampling group to include not only professors, but also accounting students and business professionals.

In order to gauge American perspectives concerning GAAP-IFRS adoption, this study was limited to U.S.-based professors, business and accounting professionals within several disciplines and accounting students currently enrolled in undergraduate and graduate accounting courses. Due to the size of the Marshall sample, the results provide a limited view of the GAAP-IFRS adoption time-line controversy among a small cross-section of American engaged in business-related vocations.

The survey/interview questions were designed so that the individual's knowledge and perceptions of IFRS could easily be determined. Questions were tailored to meet the specific discipline or area of practice. Tables 1-3 show the questions asked of each sub-category of participants. In this study, no inducement was provided to the candidates as a reward for participation. Participants were not identified by any means other than the sub-category in which the participant belongs. To protect the employee and employer, participants were not identified by any particular company name. The interviews/surveys were conducted under normal circumstances.

The questionnaire method was chosen to facilitate open-ended and anonymous responses from participants. Administratively, the questionnaire method was low in cost and allowed general-to-more-specific responses to be elicited from respondents.

Table 1: Academic Professors Survey/Interview Questions

1. In what courses do you believe IFRS should first be integrated?
2. What percentage of course content relates to IFRS now, next year, in five years?
3. When was IFRS integrated into your curriculum?
4. How successful and receptive are students to learning IFRS vs. GAAP?
5. Do you discuss IFRS convergence among your peers?
6. What are the names of actual courses in which IFRS is taught?
7. How are you preparing students (accounting majors) regarding IFRS?
8. Which, if any, textbooks are used?
9. Has any personal IFRS-related research been conducted? Any paper published?
10. Opinion whether U.S. should implement IFRS or not?
11. Biggest stumbling blocks to teaching IFRS?
12. Emphasis of Dean on integrating IFRS
13. Does your university or department plan to offer a stand-alone course in IFRS?
14. Who is responsible for teaching IFRS at your university?
15. Does your university plan to develop an IFRS course for professional CPAs?
16. Are you an active CPA?
17. What course(s) do you normally teach?

Table 2: CFO Survey/Interview Questionnaire

1. How are you prepared or preparing for IFRS integration?
2. What are your concerns regarding integration?
3. What, if any, experience have you had with IFRS?
4. Has your firm invested in continuing education with regard to IFRS?
5. How do you think IFRS will impact upon your organization's operations?
6. How do you see integrating IFRS as benefiting your strategic goals?
7. How do you see integrating IFRS as harming your strategic goals?
8. Do you agree with the timeline established for IFRS integration?
9. Does your company have international operations?

Table 3: Auditing, Banking, Non-profit, Tax, and Bookkeeping Survey/Interview Questionnaire

1. How many hours in accounting would you estimate that you currently hold?
2. In what field do you work?
3. What is IFRS?
4. What is your exposure level to IFRS?
5. What would seem a workable date for IFRS implementation?
6. What effect do you think IFRS implementation would have on your company's accounting department?

Table 4 shows the listings of participant flows by sub-category classifications.

Table 4: Participant Sub-Classification Totals

Sub-Category Classification	Total Number Recruited
Professor	3
CFO	3
Auditor	3
Banking	3
Tax	3
Non-profit	1
Bookkeeping	1

4. Discussion of Findings

Accounting principles, the rules and conventions defining accepted accounting practices, are the language of business. Every country possesses the authority to independently set its own unique accounting standards and principles or to adopt the new IFRS. In the United States, generally accepted accounting principles (GAAP) govern all financial accounting decisions and practices and attempt to ensure that financial statement information is reliable, relevant and comparable (Wild, Shaw & Chiappetta, 2009).

Since the 1970s, to alleviate the need for multiple re-statement of financial data to reconcile the differences in the diverse accounting standards across borders, several professional accounting boards have proposed the adoption of a single set of internationally recognized accounting principles known as IFRS, International Financial Reporting Standards. The International Accounting Standards Committee (IASC) was the first to take up the issue of IFRS integration; however, as noted in Nobes and Parker's text (as cited in Hines, 2007), the committee suffered from "some perceived shortcomings.. [such as]: full time workload but only a part-time board, need for wider group of countries, constituencies, and organizations with decision inputs, shortage of resources.., weak relationships with national standard setters". The IASC was dissolved by an internal vote in 1999 in favor of instituting the International Accounting Standards Board (IASB), the present day governing body.

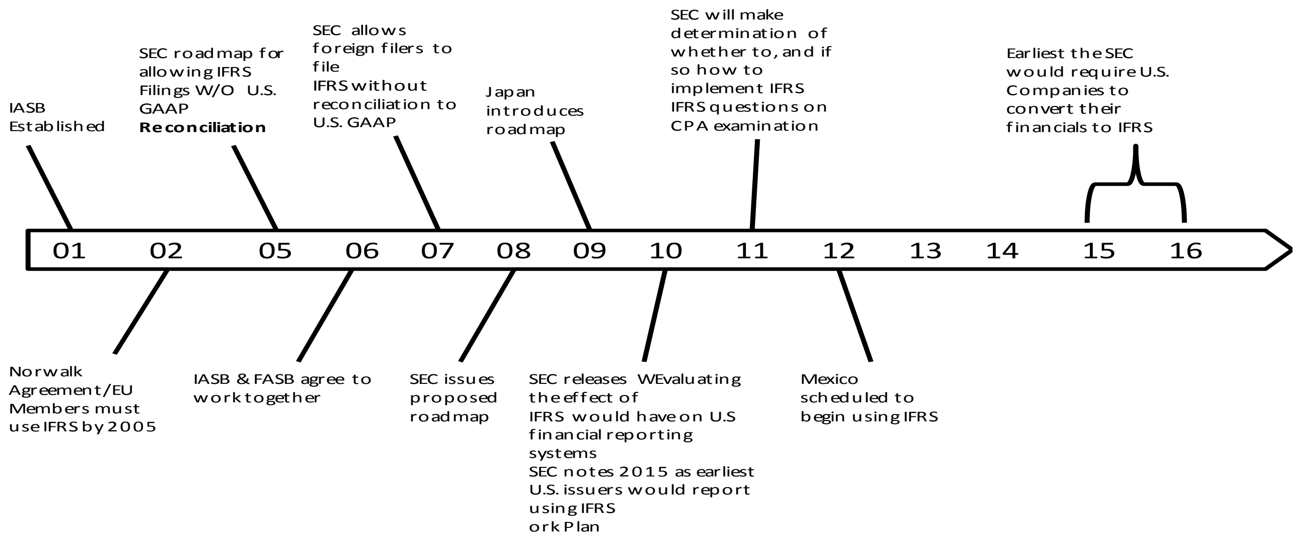
For its part, the International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation (IASCF) comprising accounting and business professionals from every continent, have been tasked with the development of a single set of globally accepted financial reporting standards. The groups are "supported by an external IFRS Advisory Council and an IFRS Interpretations Committee to offer guidance where divergence in practice occurs" (International Accounting Standards Board, 2010).

While there have been setbacks, the adoption of a consistent set of standards reflecting the reality of the current global structures and ensuring financial statement reporting consistencies, enforcement and oversight would seem to be a welcomed event. To the contrary, the path to the convergence of differences existing between American and International Standards as well as the proposed adoption of IFRS as the new American standard has been fraught with delays stemming from questions about enforcement, consistency in application and the cost of IFRS implementation (Aguilar, 2009).

The IASB's American counterpart, the Financial Accounting Standards Board (FASB), is responsible for promulgating GAAP which govern the preparation of financial statements within the United States. Since 1988, the FASB has cooperatively participated in the international standards setting process (FASB Facts About FASB, 2010) and has served on international boards as observers and members in G4 conferences comprised of accounting standards' setters from Canada, New Zealand, United Kingdom, Australia, and the United States (McCarthy, 2003). While the FASB promulgates American GAAP rules, the U.S. Securities and Exchange Commission (SEC) is ultimately responsible for the final IFRS adoption decision (Defelice & Lamoreaux, 2010).

In 2001, the Norwalk Agreement culminated in a pledge that the United States would "use their best efforts to make their existing financial reporting standards fully compatible as soon as possible" in order to foster global uniformity and comparability. In addition, the IASB, as well as the SEC and other countries' financial regulatory bodies, have implemented a time-line to achieve full integration or partial convergence worldwide (McCarthy, 2003). Important milestones in IFRS integration are shown in Figure 1.

Figure 1: 2001-2016 timeline of important IFRS milestones.



In August 2008, the SEC's own proposed roadmap outlined key activities that must occur before the SEC will require U. S. filers to adopt IFRS fully. According to the original roadmap, starting in 2011, the SEC would evaluate the progress of these key activities and determine whether or not companies would begin to report financial statements using IFRS beginning in 2014, the organization's stated target date. This roadmap also allowed for early adopters to begin filing statements in 2010. In February 2009, these plans and target dates were put on an indefinite hold. Mary Schapiro, the new head of the SEC, stated "[that she] will not be bound by the existing roadmap that's out for public comment" (Johnson, 2009) and the SEC has since issued a statement pushing the deadline to 2015-2016 (Defelice & Lamoreaux, 2010).

In addition to the time-line delays, the interviews and surveys delineated five key roadblocks existing to IFRS adoption in the United States. These roadblocks are as follows:

a. Differences in Principles Based versus Rules Based Interpretations
b. Designation of the Ruling Governing Body
c. Distinctions in Company Size and Type/Phased Integration
d. Cost of Implementation
e. Education and Training Gaps

a. Differences in Principles Based versus Rules Based Interpretations

The fundamental stumbling block to U.S. GAAP-IFRS adoption centers on the different ideological approaches inherent in each separate set of standards. To protect investors, U.S. GAAP, having been developed in the era of post-Depression America, is a very conservative, rules-based approach. In contrast, IFRS can trace its roots to the era of European unification in the early 1970s to late 1980s. In an effort to amalgamate the diverse sets and styles of accounting principles that existed across Europe, an entirely new group of generic, multi-option, principles-based standards was adopted (Doupnik & Perera, 2007).

Participants expressed concern that the generic nature of IFRS only provides broad, non-specific guidelines or principles that should be applied to the accounting process and allows for a great deal of professional interpretation and discretion. In contrast, rules-based U.S. GAAP offers clear cut and well-defined parameters of operation. Of major concerns were the differences in the accounting standards governing the treatment of inventory, goodwill, patents, hybrid financial statements, extraordinary items, revenue items and advertising expenses (Riordan & Riordan, 2009).

b. Designation of the Ruling Governing Body

Study participants were unsure what effect the adoption of IFRS standards in the United States would have on the determination of the ultimate regulatory regime for accounting practitioners. For the study participants, several key questions have not been answered: Which group or agency will serve as the regulatory body for American companies? And, with the final implementation of IFRS, will the SEC step aside as the chief regulatory body in the United States in favour of a supra-national organization similar to the United Nations? If so, would this requires the United States to lose its autonomy in setting internal national financial and regulatory standards?

Additionally, study participants focused on authority issues and policing efforts. Currently, IFRS are managed by the IASB, a board comprised of accounting and business professionals from diverse industrialized nations around the globe. While the IASB has been charged with international standards' development, the IASB has no real overseeing authority or regulatory powers like the SEC (International Accounting Standards Board, 2010).

In the absence of real oversight and in the light of the recent world-wide accounting scandals, study participants expressed concern that this omission could lead many investors to question the ethics and practices of financial institutions and undermine confidence in business practices. To date, study participants' concerns have not been addressed by the IFRS adoption process. Interestingly, because there would be so much ambiguity concerning the controlling regulatory authority, participants opined that these problems might actually achieve a result that is counter to the stated goal of IFRS convergence which is comparability and ease of reporting.

c. Distinctions in Company Size and Type/Phased Integration

Study participants expressed doubt in the actual time-line's viability due to the related phase-in of mandatory adoption dates according to company size. Recent events seem to bear out these concerns. While the roadmap has offered a proposed phase-in process for large corporations, this time-line has been delayed numerous times. In its 2009 amended roadmap, the SEC proposed that large accelerated filers would begin using IFRS by 2014, followed by accelerated filers in 2015 and small companies in 2016. This left small- to- medium sized enterprises (SMEs) questioning the necessity of using IFRS altogether. The SEC's mandatory implementation of IFRS for financial reporting purposes has recently been delayed until 2015 at the earliest (Defelice & Lamoreaux, 2010).

According to the American Institute of CPAs (AICPA), the body governing the professional activities of non-SEC private firms and certified public accountants (CPAs), the IFRS Readiness Tracking Survey cited that 47% of certified public accountants were unsure if IFRS should even be adopted for SMEs. Furthermore, only about 45% of AICPA members even have a basic knowledge of IFRS (American Institute of CPAs, 2010). Although smaller in size, the Marshall study's results mirror the comprehensive study completed by the AICPA in May 2010.

In the Marshall study, the benefits and disadvantages associated with IFRS implementation and the effects on a company's strategic goals were directly correlated to a company's size and classification. The CFO at the larger company perceived IFRS as offering a greater benefit to both the long and short term goals of the company. In essence, the adoption of IFRS could only serve to strengthen the company's goal of expanding into different global markets and would increase overall investment potential. Small businesses are not prepared for the adoption of IFRS in the United States and see no benefit in switching from GAAP to IFRS; in fact, respondents stated IFRS would cause the diversion of already-limited capital resources to IFRS upgrades.

Because the 2016 time-line for phased integration is nearing, study participants in the CEO/CFO sector opined that professional talent acquisition and training costs would be at the forefront of human resource departments' agendas, regardless of the type of business. Smaller companies (SMEs) cannot compete with larger corporations in a compensation bidding war to attract IFRS-trained accountants. Many argue that a longer phased integration time-frame is justified because of the current lack of education, resources and talent.

d. Cost of Implementation

According to the Marshall study, the costs associated with implementation of IFRS are considered to be a looming obstacle to adoption. Participants opined that employers, whether a private company or university, will have to make significant investments in new accounting software, training staff for IFRS certification, as well as re-educating entire tax and auditing staffs in IFRS. At this time, study participants were not able to quantify the costs associated with IFRS adoption.

A recent international study would seem to confirm the responses and perceptions of the Marshall study participants regarding the prospect of increased costs due to forced

IFRS adoption. An Institute of Chartered Accountants for England and Wales study determined that small European companies spent .31 percent of company revenues while larger companies spent .05 percent of revenues to institute IFRS initially. The financial impact and going-concern implications of mandatory IFRS adoption have had the most profound consequences on SMEs (Institute of Chartered Accountants for England and Wales, 2010). In the United States, the SEC estimates that IFRS adoption will cost some $ 3.5 billion in the first year of IFRS filings or about .13% of annual business revenues (Jetuah, 2008).

e. Education and Training Gaps

While the SEC and IASB have embraced IFRS, study participants believe a critical and formidable challenge looms in the lack of IFRS education, knowledge and training at the university, business enterprise and professional accounting levels. The AICPA will begin testing IFRS questions beginning with the January 2011 test cycle of the Uniform Certified Public Accountants Exam even though IFRS has not been officially adopted as the new U.S. accounting standard (AICPA, 2009).

According to the professors interviewed in the Marshall study, undergraduate accounting students are still being educated in GAAP standards. All of the professors surveyed believed that IFRS should be integrated at the intermediate accounting level with a simple introduction to IFRS beginning in principles of accounting I & II. Course materials have been primarily derived from the current accounting textbooks in use. These books contain short end of chapter discussions on IFRS and GAAP differences. The average time that the sample has been discussing IFRS in academic classes is about 1.6 years. Within the sample, no dedicated course in IFRS has been taught nor was there any intention to develop a stand- alone IFRS course.

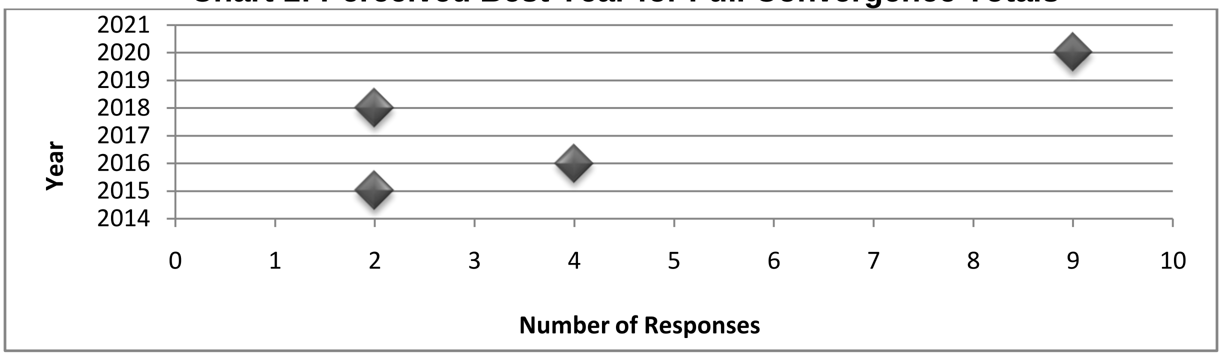
Nationally, because there has been no final SEC decision regarding IFRS adoption within the United States, there is a palpable lack of urgency in teaching IFRS as well as a fundamental lack of IFRS knowledge among professors nation-wide. Most often, these are due to a lack of funding, the absence of available IFRS teaching materials and course- time constraints at the university level.

This lack of urgency and failure to teach IFRS is of concern to business owners and executives. According to the CEOs and business owners interviewed in the Marshall study, businesses will depend on universities and accounting professionals to bridge the IFRS knowledge gap and to provide the professional expertise to navigate the proposed international accounting standards requirements**.** The “Big Four” U.S. accounting firms are investing heavily in both research and training modules and are devoting financial resources in developing university curriculum and continuing education seminars for practitioners and clients (KPMG-AAA, 2009).

The time-line remains the most important variable in the IFRS adoption equation. All of the study participants stated that the 2015-16 IFRS deadline was feasible only if there was a clear mandate from the SEC. Participants further opined that IFRS should be implemented in order for the United States to remain competitive in the global market-place. Absent this mandate, respondents' opinions differed in the assessment of a reasonable IFRS adoption time-line structure.

Addressing the five roadblocks to IFRS adoption continues to be the main stumbling block for the study respondents. About 53 percent of study participants believed that 2020 would be the optimal IFRS adoption year while 23 percent suggested that 2016 was a feasible integration dead-line. Overall, 65 percent of respondents did not favour a 2016 phase-in date and suggested alternative dates of 2018-2020.

Chart 1: Perceived Best Year for Full Convergence Totals



5. Conclusion

Based on the results of the Marshall study, the SEC's current time-line for IFRS integration within the United States is unrealistic. Given that the majority of participants cite that key concerns have not been addressed and a general lack of certainty exists within the business community, the SEC is faced with two alternatives.

The first alternative is that the SEC must issue a definitive statement of commitment and adoption of IFRS. By committing to the adoption of IFRS in total, the SEC would then be required to set clear, distinct time frames for resolving the major issues between U.S. GAAP and IFRS. In turn, this process would allow the appropriate groups to develop an accounting strategy for how companies and universities will respond to required implementation. This new time-line would require integration with IFRS no earlier than 2016 for large publicly traded, multi-national companies and would allow for voluntary integration for all other businesses wishing to submit IFRS filings. In addition, the years 2016 to 2018 would be designated as a phase- in period and would be used for evaluating the costs, benefits, and negative repercussions of the newly enacted IFRS regulations. By 2019, all large domestic companies would be required to submit SEC filings using IFRS and all SME's would follow by 2020.

In the alternative, the SEC could abandon its current goal of mandatory IFRS integration and adoption. Instead, the SEC could focus on allowing U.S. companies to choose between using the current U.S. GAAP or opting to implement IFRS. Companies can choose to opt-in or opt-out of IFRS compliance. The SEC could continue to police the public sector corporations' financial dealings.

In the end, the reality of having a single unified set of comparable and consistent global financial reporting statements may create a “gap between the stated goals of the regulators and the reality experienced by the preparers and users of financial statements” (Hail, Leuz & Wysocki, 2009). In this light, it is highly suspect that true IFRS integration will ever be possible in the United States. Already, subtle and significant differences among countries that have already adopted IFRS are beginning to emerge due to the systematic differences existing in IFRS implementation.

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