

International Accounting Rules Gain Global Support: Recent Study Cites “Very Encouraging” Progress Towards Adopting IFRS Worldwide

By Scott A. Ehrlich

There is widespread support for adopting International Financial Reporting Standards globally, according to a recent study published by the IFRS Foundation.

“Of the 66 jurisdictions that responded to the survey, 95% have made public commitments supporting IFRSs as the single set of financial reporting standards suitable for global application,” the study concluded.

The IFRS Foundation, which oversees the International Accounting Standards Board, undertook the survey in response to repeated calls by G-20 leaders for a single set of global accounting standards.

Convergence with U.S. GAAP

The study also highlights that most of the world’s largest economies have adopted IFRS in some form. But a few major jurisdictions, including the United States, have been notably slow to commit.

Nonetheless, Hans Hoogervorst, Chairman of the IASB, believes that “more progress is being made than many people are aware of” in countries like Japan, China, and the U.S.

“The SEC’s 2007 decision to permit non-U.S. companies to use IFRS for their American listings was a major game-changer,” Hoogervorst said in a recent speech at a conference in Amsterdam. “Today, more than 450 Foreign Private Issuers are reporting using IFRSs, which represents trillions of dollars in market capitalization. So the use of IFRS in the United States is far from marginal, which explains why the American SEC remains very interested in progress being made by the IASB.”

Still, the SEC has been noncommittal as to when – or if – it will mandate IFRS for domestic U.S. registrants.

In July 2012, the SEC’s Office of the Chief Accountant issued a comprehensive report on whether to allow or require U.S. companies to use IFRS for quarterly and annual filings. The report was de-

signed to help the SEC’s five Commissioners determine whether to more broadly incorporate IFRS into the financial reporting system for U.S. issuers, but contained no formal recommendations.

Since the release of the report, though, the SEC has not taken up the matter of IFRS adoption at their periodic rulemaking meetings.



That may change as two to three new Commissioners will be joining the SEC in a matter of months. But at least one SEC insider believes that recently appointed SEC Chairman Mary Jo White has other higher priorities, such as money market fund reform, better regulating cross-border filings, and reorganizing certain departments at the SEC.

IASB/FASB Joint Projects

Despite the SEC’s inaction around adoption of IFRS, the IASB and its U.S. counterpart, the FASB, have been working over the past ten years to narrow the differences between U.S. and international accounting rules.

While these efforts have had some success, the boards appear to be tiring of the time and effort required to reach global consensus on difficult accounting issues. In a December 2012 speech, Leslie Seidman, the recently departed Chair of the FASB, went so far as to say that “a goal of 100 percent comparability is not achievable in the near term”, signaling an end to years of cooperation between the two entities. New FASB Chairman Russell Golden recently confirmed that the FASB’s top priority is to complete any remaining convergence

projects by the end of 2014, after which time “our bilateral relationship with the IASB will end”.

The two boards do expect to issue a final converged standard on revenue recognition later this summer. And they have recently released two joint exposure drafts to narrow the U.S. GAAP and IFRS difference around insurance accounting and leasing.

A fourth convergence project around financial instruments, which focuses on identifying when loans and investments become impaired, has proven more controversial. The two standard setters issued competing, rather than converged, proposals. But recently, the Boards publicly announced their commitment to work together to try to achieve a joint solution.

Next Steps

With or without the U.S. onboard, the IFRS Foundation has directed the IASB to focus on developing accounting rules that can be used globally.

According to Hoogervorst, “Every relevant international organization has expressed its support for our work to develop a global language for financial reporting. The G20 Leaders, the IMF, the World Bank, the Financial Stability Board, the IOSCO and the Basel Committee on Banking Supervision: all are on record with their support for this important project.”

In the coming months, the IFRS Foundation plans to expand its initial study to cover another 50 to 60 jurisdictions, including the 13 EU member states that did not respond to the initial survey request. “There is no reason to believe the remaining profiles to be published will tell a very different story,” said Hoogervorst. “[At the end of the survey process] we hope to end up with a comprehensive picture of the IFRS-world.”

The IASB, together with the FASB, also plans to create transition resource groups as the remaining convergence projects are completed. These groups will help the standard setters understand the challenges companies are facing in applying the new

standards, and guide the development of interpretative guidelines that can be applied consistently across the world.

“Issuing final standards is just the beginning – not the end – of the process,” said Golden. “Once the standard is issued, we plan to spend a considerable amount of time and energy addressed implementation and education issues.”

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