Honors Thesis

An Analysis on the Advantages and Disadvantages of U.S. Generally Accepted Accounting Principles (GAAP) Converging to International Financial Reporting Standards (IFRS)

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Abstract

The US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are working on joint projects designed to improve and ultimately converge US Generally Accepted Accounting Principles (US GAAP) to International Financial Reporting Standards (IFRS). The purpose of the convergence effort is to help improve financial reporting information while also working toward the goal of one set of global accounting standards. The convergence effort is a significant move toward achieving a common accounting framework and an important step in the globalization of business. However, the convergence is also a time consuming and costly effort.

This research project primarily deals with an analysis on the advantages and disadvantages of US GAAP's convergence to IFRS and also whether or not the United States will actually go through with the convergence project and adopt IFRS. The hypothesis is that there will be several advantages as well as disadvantages of the convergence effort and even though one set of global accounting standards sound like an ideal solution for the continuously globalizing business world, it will not be put into practice in the United States anytime in the near future. Evidence was gathered through extensive research on publications related to the topic and through informal interviews of academics and professionals that study the convergence effort. Though the convergence project seems more advantageous in theory, the practical application of IFRS worldwide still remains as a question that can only be answered in due time.

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History of the Convergence Effort

The idea for an international convergence of accounting standards first arose in the late 1950s in response to the post World War II economic integration and related increases in cross-border transactions ("A Brief History"). "The 1950s began a period of rapid growth of international trade and foreign direct investment, and companies began to expand their reach beyond their borders" (Zeff 808). With each country having its own proper accounting practice or Generally Accepted Accounting Principles (GAAP, as known in the U.S.), meaningful comparisons of financial statements from one country to the next was very challenging (Zeff 808). Initial efforts were focused more on reducing the differences among the accounting principles used in major capital markets around the world but by the 1990s, the concept of convergence came about. The notion of convergence calls for the development of a single set of international accounting standards that would be used in at least all of the major capital markets around the world ("A Brief History").

In 1962, the American Institute of Certified Public Accountants (AICPA) hosted the 8th International Congress of Accountants. The topic revolved around the world economy in relation to accounting and many participants saw the need for the development of accounting standards on an international basis. In reaction, the AICPA reactivated its Committee on International Relations with the goal of establishing programs to improve the international cooperation among accountants and the exchange of information and ideas that might lead to eventual agreement on common standards ("A Brief History").

In 1973, the first international standards-setting body, the International Accounting Standards Committee (IASC), was established by the AICPA and its counterparts in 8 other countries. "Its mission was to formulate and publish, in the public interest, basic standards to be observed in the presentation of audited accounts and financial statements and to promote their worldwide acceptance" ("A Brief

History"). However, until 2002, IASC standards were only adopted by a few countries that lacked their own standard-setting infrastructure. In the same year, the Financial Accounting Standards Board (FASB) was established to improve standards of financial accounting and reporting for nongovernmental entities in the United States. Since establishment, FASB "has been the designated organization in the private sector for establishing standards of financial accounting that governs the preparation of financial reports by nongovernmental entities" ("Facts about FASB"). Those standards are officially recognized as authoritative in the United States by the Securities and Exchange Commission (SEC) and the AICPA ("Facts about FASB").

The 1970s also saw a gradual increase in voluntary cooperation among national standard setters. In 1979, FASB took on a project to revise its accounting standard on foreign currency and decided to include representatives from UK, Canada and IASC on its Task Force. This was one of the FASB's first efforts to officially collaborate with other national standard-setters when developing a standard ("A Brief History").

By the late 1980s, there was a high level of worldwide interest for a common body of international accounting standards. Until 1988, the U.S. involvement in the IASC activities was only coordinated by the AICPA. But in 1988, the FASB also got involved by becoming a member of the IASC Consultative Group and an Observer to the IASC which permitted a FASB representative to attend IASC meetings. The FASB saw that the need for international accounting standards was strong enough to warrant more focused activity on its part and thus "expressed its support for 'superior international standards' that would gradually replace national standards and identified new initiatives to get the FASB more directly involved in the drive to improve international standards" ("A Brief History").

"During the 1990s, the FASB developed its first strategic plan for international activities and significantly expanded the scope of its collaboration with other standard setters" ("A Brief History"). In

1991, the FASB issued its first formal plan for international activities. The plan described the ultimate goal of internationalization as "a body of superior international accounting standards that all countries accepted as GAAP for external financial reports" ("A Brief History"). However, the FASB did conclude to focus more on increasing the international comparability of accounting standards since the ultimate goal was beyond immediate reach. The FASB and its counterparts in Canada, the United Kingdom, and Australia formed a group (referred to as the G4) to research and propose solutions to common accounting and reporting issues and the group published 11 research reports on various accounting issues ("A Brief History"). The G4 is a prime example that shows the increase in the collaboration effort among national standard setters.

The U.S. Congress and the Securities Exchange Commission (SEC) also became involved in the issue of international accounting standards in the 1990s. In 1966, the U.S. Congress passed the National Securities Markets Improvement Act of 1996 and section 509 of the law dealt with promoting the global preeminence of American Securities Markets. Section 509 stated that the "establishment of a high-quality comprehensive set of generally accepted international accounting standards in cross-border securities offerings would greatly facilitate international financing activities and, most significantly, would enhance the ability of foreign corporations to access and list in United States markets" ("A Brief History"). The SEC also showed their support for the international accounting standards in 1966 by issuing a press release which stated "its intent to consider the acceptability of IASC standards as the basis for the financial reports of foreign private issuers" ("A Brief History").

The International Organization of Securities Commissions (IOSCO) also showed their support for global accounting standards and the IASC when they announced in 1987 that they would consider endorsing IASC standards if the IASC were to make significant improvements on their current standards. By the end of 1993, ten revised standards were submitted to IOSCO for consideration and though the

IOSCO found most of the ten standards to be acceptable, they wanted further improvements on some. The IASC, despite the setback, agreed to supply a "set of two dozen 'core' standards" by 1999 (Zeff 314-315). In May 2000, after careful assessment of their quality, the IOSCO decided to "recommend to its regulator members that they permit multinational enterprises to use the IASC's core standards in financial statements contained in cross-border listings and offerings of securities" (Zeff 823). However, the recommendation was undermined by allowing the regulators with the option to use "supplementary treatments" when dealing with the "outstanding substantive issues" in the IASC's core standards. "Some therefore regarded IOSCO's endorsement as rather 'hollow,' yet this act of endorsement certainly served to enhance the IASC's worldwide credentials as a standard setter" (Zeff 823).

Beginning the late 1990s to the early 2000s, efforts of simply reducing the differences among the accounting principle used around the world evolved into a big convergence effort. In 2001, "in response to calls for improvements in the governance, funding, and independence of the IASC, it was reconstituted into the IASB [International Accounting Standards Board]" ("A Brief History"). The IASB began improving the standards it inherited from the old IASC and renamed them from International Accounting Standards (IAS) to International Financial Reporting Standards (IFRS) (Zeff 822). In 2002, the European Union (EU) became the first major capital market to require IFRS with their adopted legislation requiring all listed companies to prepare their financial statements using IFRS starting in 2005. However, "the EU subsequently decided to "carve-out" a portion of the international standard for financial instruments, producing a European version of IFRS" ("A Brief History").

"One of the IASB's priorities in 2001–2002 was to begin a process of mutual convergence with the FASB, so that, once their two sets of standards were close to being compatible, the SEC might be ready to drop its required reconciliation for foreign private issuers that use IFRS" (Zeff 826). In September 2002, the FASB and IASB met and agreed to work together to improve and converge U.S.

GAAP and IFRS which eventually resulted in the “Norwalk Agreement”. “The Norwalk Agreement set out the shared goal of developing compatible, high-quality accounting standards that could be used for both domestic and cross-border financial reporting. It also established broad tactics to achieve their goal: develop standards jointly, eliminate narrow differences whenever possible, and, once converged, stay converged” (“A Brief History”).

In 2006, the FASB and IASB jointly issued a Memorandum of Understanding (MoU) which identified the standard-setting projects that the Boards considered to be most in need of improvement in the near term (“A Comparison…”). The MoU also reaffirmed the FASB’s and IASB’s shared objective of developing high quality common accounting standards and specifically described the progress the Boards hoped to have achieved toward convergence by 2008. The FASB and IASB updated the MoU in 2008 to report the progress they have made since 2006 and in 2010, the Boards agreed to “modify their joint work plan to (a) prioritize the major projects in the MoU to permit a sharper focus on issues and projects for which the need for improvement is most urgent and (b) phase the publication of exposure drafts and related consultations to enable the broad-based and effective stakeholder participation that is critically important to the quality of the standards” (“A Brief History”).

The year 2007 marked a milestone in the convergence effort when the SEC proposed and subsequently eliminated the reconciliation requirement for the foreign registrants that issue financial statements using IFRS as issued by the IASB. The SEC also sought public input on whether to give US public companies the option of using IFRS in their financial statements filed with the SEC but the FASB and other concerned parties argued against the optional use due to the complexity that could result from such a dual reporting system (“A Brief History”).

In 2010, while restating their support for a single set of globally accepted accounting standards, the SEC directed their staff to “develop and execute a work plan (Work Plan) that transparently lays out specific areas and factors for the staff to consider before potentially transitioning our current financial reporting system for U.S. issuers to a system incorporating IFRS" ("A Brief History"). Though the Work Plan was completed in July 2012 ("Work Plan..."), the SEC has not yet made a decision on adopting IFRS in the United States.

Though the SEC has not announced their final decision on the issue of adopting IFRS in the US, the FASB and IASB continues their efforts for the convergence project. The Boards are currently working on nearly a dozen joint projects designed to improve both US GAAP and IFRS to ultimately make the standards fully compatible ("US...Convergence"). Even though the FASB and IASB formally announced their agreement to work toward convergence in 2002, due to the complex nature of some of the issues in consideration, their efforts are still continuing as of today. It has been a decade since the joint efforts began but they still have a long way to go before one set of global accounting standards can be issued.

General Differences between the US GAAP and IFRS

Detailed and comprehensive comparisons of the US GAAP and IFRS have been done by several concerned parties of the convergence project including the SEC and the major accounting firms. Thus, this section of the thesis will only focus on highlighting the most basic general differences between the US GAAP and IFRS.

In general, US GAAP is noted to have more detailed, specific requirements than IFRS ("A Comparison..."). In other words, US GAAP has more "rules-based" standards with specific application guidance while IFRS has more "principles-based" standards with limited application guidance ("IFRSs...Comparison"). One of the main reasons for this difference is the fundamental differences between the FASB and IASB's conceptual frameworks. According to "A Comparison of U.S. GAAP and IFRS" by the SEC staff, "[t]he FASB's Statements of Financial Accounting Concepts ('Concepts Statements') and the IASB's Framework for the Preparation and Presentation of Financial Statements ('Conceptual Framework') differ with respect to the underlying concepts and the authority of the concepts in application. The Boards often are guided by the conceptual frameworks in their development of standards and in their review of existing standards and, thus, differences in the frameworks can contribute to differences in the recognition and measurement guidance incorporated at the standards level."

Even before the development of the MoU in 2006, the FASB and IASB added a joint project to their agendas "to develop an improved, common conceptual framework that builds on their existing frameworks" ("A Comparison..."). The Boards understood the importance of aligning the conceptual frameworks of US GAAP and IFRS in order to achieve the goal of one set of global accounting standards. "The Boards intended to update and refine the existing concepts to reflect the changes in markets, business practices, and economic environment and use the revised concepts in the development of the

Joint Projects" ("A Comparison..."). However, the Boards only completed one of the eight phases of the conceptual framework project before the project was deferred as a lower priority project in 2010 ("A Comparison...").

An example of the basic differences between the conceptual frameworks is the level of authority of each of the conceptual frameworks. "Under IFRS, the Conceptual Framework is authoritative guidance, and the concepts are applied when there is no standard or interpretation that specifically applies to a transaction, other event, or condition" ("A Comparison..."). However, under US GAAP, the Concept Statements are not considered as the FASB's authoritative guidance.

Another example of a basic difference between the conceptual frameworks is the definition and recognition of assets and liabilities. "The Concept Statements [of FASB] define an asset or a liability in terms of a 'probable' future event (i.e., economic benefit for an asset and economic sacrifice for a liability) with 'probable' defined in a general-use context, referring to that which can be reasonably expected or believed on the basis of available evidence" ("A Comparison..."). IFRS, on the other hand, does not include the concept of probability in the definition of an asset or a liability. The probability factor is instead taken into consideration as a recognition requirement. For example, "recognize an asset when it is probable that future economic benefits will flow to the entity [and recognize] a liability when it's probable that an outflow will result from settlement of the present obligation" ("A Comparison..."). However, "probable" is not defined under IFRS and thus, open to broader interpretation. In addition, "IFRS has an additional recognition criterion that requires an entity to be able to measure reliably the cost or value before recognition" ("A Comparison..."). Such differences at the most basic level without a doubt contribute to the difference in the current US GAAP and IFRS standards and explain why the convergence process is taking so long.

Another reason for this difference between "rules based" US GAAP and "principles based" IFRS is how each set of standards were developed. "In many cases, the U.S. guidance was developed by one of the many legacy U.S. standard setters due to a perceived need for, or void in, guidance for a particular type of transaction" ("A Comparison..."). This specific guidance that is tailored for a transaction or industry may contribute to consistent application within one industry but it may decrease the comparability across industries. In contrast, IFRS has broad principles to account for transactions across industries. However, keep in mind that IFRS has been developed by a "single standard-setter (the IASB, or its predecessor, International Accounting Standards Committee) with one interpretative body" ("A Comparison...").

Though the major difference now between the two set of standards is that the US GAAP is "rules-based" and IFRS is "principles-based", there is no guarantee that the IFRS will always remain "principles-based". IASB may have to develop transaction or industry specific standards in the future in order to address a specific transaction or industry issue. So is it better to have a "rules-based" standard with strict guidelines or "principles-based" with room for broad interpretations? More importantly, will the FASB and IASB be able to come to a compromise on these fundamental differences?

Current Status of the Convergence Effort

Since the signing of the Norwalk Agreement in 2002 by the FASB and IASB, remarkable progress has been made in the convergence effort. However, the convergence effort is still in progress a decade later without a set timeline for the adoption of IFRS in the United States.

As previously mentioned, both the FASB and IASB jointly issued the Memorandum of Understanding (MoU) in 2006 to expedite the convergence effort. The MoU identified short-term and long-term convergence projects that would bring the most significant improvements to US GAAP and IFRS. In 2010, the Boards prioritized the joint projects according to projects that called for immediate attention. Most of the short-term projects identified in the MoU are either completed, close to completion, or reassessed as a lower priority project. As of the longer-term projects, the FASB and IASB's current priority projects include revenue recognition, leases, financial instruments, and insurance contracts ("IASB-FASB Update Report…").

Revenue recognition has been on the Boards radar since the Norwalk Agreement. The FASB and IASB have finally achieved converged solutions in regards to revenue recognition and the Boards are expected to issue the final standards in mid 2013. "The objective of this project is to improve financial reporting by creating identical standards on revenue recognition that clarify the principles that can be applied consistently across various transactions, industries and capital markets" ("Update by the IASB and FASB" 4). Achieving convergence on a complex issue as revenue recognition will definitely mark an important milestone in the path toward global accounting standards.

Leasing is another one of the original long-term projects of the FASB and IASB. Lease obligations are considered to be a significant source of off-balance sheet financing and the goal of the Leases project is to "improve financial reporting by lessors and lessees, in particular by recognizing leases on the balance sheet" ("Update by the IASB and FASB" 4). The Boards plan to publish the exposure drafts in the second quarter of 2013 and re-deliberate the proposals later in the year after the 120-day public comment period. "The timing of the issuance of the final requirements will depend on the nature and extent of the feedback received" ("Update by the IASB and FASB" 4). Though the Leases project is working steadily toward convergence, the timing of the issuance of the final converged standards cannot be determined as of yet.

Developing converged standards for financial instruments and insurance contracts seems to be more difficult compared to revenue recognition and leasing. The Boards have managed to eliminate differences in some areas of the classification and measurement models of the financial instruments. However, impairment is a major hurdle that the Boards must overcome in order to move forward with the development of converged standards in regards to financial instruments. "For the Impairment project, it has been a challenge to bring together the different perspectives of the boards' respective stakeholders and the different markets in which such stakeholders conduct their primary business activities" ("Update by the IASB and FASB" 1). The FASB published its exposure draft concerning impairment in December 2012 with the comment period ending on April 30, 2013. The IASB is expected publish its exposure draft in the first quarter of 2013 and the Boards expect to complete deliberations in 2013 ("Update by the IASB and FASB" 3-4).

Insurance contracts project is another example of where the Boards have a hard time coming up with converged solutions. The Boards have reached different decisions on several basic matters including "the recognition of changes in estimate, the inclusion of a risk margin in the measurement of the liability and the treatment of acquisition costs" ("Update by the IASB and FASB" 5). IFRS currently does not have a standard regarding insurance contracts so the IASB must issue a new standard altogether. The FASB, on the other hand, is only proposing amendments to its long-standing insurance model. The different decisions reached by the FASB and IASB may be attributed to these different starting points. The IASB plans to publish its exposure draft regarding insurance contracts in the first half of 2013 while the FASB plans to publish its exposure draft in mid 2013 ("Update by the IASB and FASB" 5).

Though the financial instruments and insurance contracts projects are currently posing challenges to the convergence effort, the investment entity project is an example of where the Boards agreed to disagree on the converged standards. The IASB's focus was only on the exemption from consolidation in regards to accounting for investment entity but the FASB took a broader approach. Therefore, the Boards final standards will be similar but not identical. The IASB already issued its final standard regarding investment entities and the FASB is expected to issue its final standard in the first half of 2013 ("Update by the IASB and FASB" 5).

The completion of the revenue recognition project will mark an important milestone, however, the indeterminate completion dates of the leases, financial instruments, and insurance contracts projects and the lack of complete convergence in the investment entity project casts doubts on the successful adoption of IFRS in the US in the near future. Also, it is no longer clear if the SEC will recommend the adoption of IFRS in the US. "The SEC's "Roadmap to IFRS" is history, and the question of "when" the changeover from US [GAAP] might occur has changed to "whether," following the issuance of a final SEC staff report in July [2012]" (Eyden). The SEC called for the work plan to enhance the Commission's understanding of the convergence effort but the staff report did not make any recommendations or offer a timeline for the adoption of IFRS. Paul Beswick, chief accountant in the SEC's Office of the Chief Accountant, "advised constituents to 'stay tuned' for the SEC's decision, stating that it 'may be the single most important accounting determination for the SEC since the determination to look to the private sector to establish accounting standards in the 1930s'" (Eyden). The major drawbacks of the adoption of IFRS in the US include the lack of consistency in application and enforcement of IFRS, maintaining US influence in the standard-setting process and the funding mechanism for the IASB (Cohn). With the SEC's silence, the adoption of IFRS in the US remains as a question that can only be answered in due time.

Advantages and Disadvantages of the Convergence Effort

There are obviously advantages to adopting IFRS in the United States. Otherwise, the FASB and IASB would not still continue to spend their time and efforts on such a complex project. However, do these advantages outweigh the disadvantages?

"One of the perceived benefits of a single set of high-quality globally accepted accounting standards is that investors can read a set of financial statements of any company, understand the financial results, and make comparisons to the results of other companies" ("Work Plan..." 5). In other words, an increase in comparability of financial statements across the globe due to the one set of global accounting standards. But in order to derive this key advantage, it is imperative that IFRS is applied and enforced on a consistent basis among the nations ("Work Plan..." 5).

The European Union (EU) was the first major capital market to require IFRS. However, "the EU subsequently decided to 'carve-out' a portion of the international standard for financial instruments, producing a European version of IFRS" ("A Brief History"). In addition, "currently IFRS is only required in Europe for *consolidated* financial statements if a company's debts or shares are traded on a regulated market" (Brice). Therefore, each country's individual GAAP might still be used in practice today for entity level financial statements. Furthermore, the simplified set of standards for private entities known as the "IFRS for SMEs" is also not receiving a grand reception in Europe. The EU member states have expressed significantly different views regarding the use of the IFRS for SMEs so the elimination of the individual national GAAPs in Europe is not likely in the near future (Brice).

In addition, the SEC Staff conducted an analysis of IFRS in practice in their "Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers". "The Staff analyzed the fiscal 2009 annual consolidated financial statements of 183 companies, including both SEC registrants (foreign private issuers) and companies that are not SEC registrants, which prepare financial statements under IFRS" ("Work Plan..." 22). According to the Staff's analysis, "the transparency and clarity of the financial statements in the sample could be enhanced" in topical areas and "diversity in the application of IFRS presented challenges to the comparability of financial statements across countries and industries" ("Work Plan..." 23). Thus, it can be safe to assume that the goal of comparability has not yet been reached even with the implementation of IFRS.

Other factors that influence comparability are enforcement and structure of jurisdiction. "[A]ccounting standards are just one factor influencing the degree of comparability reflected in companies' financial reports; other factors such as managers' reporting incentives, regulatory enforcement, and auditing also significantly affect the comparability of financial reports" ("Work Plan..." 29). How will the incorporation of IFRS impact the SEC's enforcement program? What will the role of FASB be if the US adopted IFRS?

"Once standards have converged, the actual process of developing and implementing new international standards will be simpler and will eliminate the reliance on agencies to develop and ratify a decision on any specific standard" ("The Impact of...IFRS"). If IFRS is adopted worldwide, it will give the IASB a monopoly in setting accounting standards globally. Though it may make the process of developing and implementing new standards easier, the lack of checks and balances may greatly undermine the quality of such standards.

The independence of the IASB also needs to be taken into consideration due to the lack of stable and sustainable funding base. "While the [IASB] has made progress in developing government sponsored funding systems, a large portion of the IASB's funding still comes from voluntary contributions from companies and accounting firms" ("IASB Funding"). "The Commission [SEC] previously has noted that the IASB may be subject to a perceived, or potentially an actual, connection between the availability of funding and the outcome of the IASB's standard-setting process" ("Work

Plan..." 52). In order to maintain the independence of the IFRSs, the IASB must obtain secure funding without relying on corporations and public accounting firms. Achieving stable and independent funding is a critical milestone in SEC's proposed roadmap for IFRS adoption in the US("IASB Funding").

Another perceived benefit is cost savings, especially for multinational companies that must issue financial statement in various countries. Even though there might be substantial transitional costs at first, there are imminent cost savings for the large multinational firms in the long run. However, for smaller companies without any international operations, the incorporation of IFRS would only add costs. Both small and large companies would generally have to perform similar activities to transition to IFRS but the smaller companies have "fewer internal resources available to dedicate to nonroutine projects such as a transition to IFRS and, hence, the impact may be more burdensome to smaller issuers on a relative basis" ("Work Plan..." 119). A plausible solution for this problem is that the US can allow smaller companies without international operations to continue to use US GAAP but that will only create a dual reporting system and defeat the purpose of IFRS (one set of global accounting standards).

To summarize, the advantages of one set of global accounting standards include "renewed clarity, possible simplification, transparency, and comparability between different countries on accounting and financial reporting" ("The Impact of...IFRS"). Thus, if the convergence effort leads to the worldwide adoption of IFRS, it will result in "an increase of capital flow and international investments, which will further reduce interest rates and lead to economic growth for a specific nation and the firms with which the country conducts business. Timeliness and the availability of uniform information to all concerned stakeholders will also conceptually make for a smoother and more time-efficient process" ("The Impact of...IFRS"). However, it will take time to develop and implement such a new system of accounting rules and standards. One of the main reasons for the delay is the "unwillingness of the different nations involved in the process to collaborate based on different cultures, ethics, standards, beliefs, types of economies, political systems, and preconceived notions for specific countries, systems and religions" ("The Impact of...IFRS"). The current IFRS does not provide all of the said advantages especially due to the inconsistency in the application and enforcement of IFRS in the countries that already incorporated IFRS. Therefore, converging to IFRS is a notion that is more advantageous in theory than in practice.

As far the US adoption of IFRS is concerned, since the US already has a strong set of standards, converging to IFRS right now does not assume a significant improvement upon the quality of the current standards. The US also has a strong enforcement system (the SEC) for the US GAAP that may be compromised with the adoption of IFRS. Thus, until IFRS is consistently applied and enforced throughout the countries that adopted IFRS, the US adopting IFRS is futile. However, the FASB and IASB should still continue their convergence efforts since the convergence between US GAAP and IFRS is a major step towards the ultimate goal of one set of high quality global accounting standards. Through continuous improvements, IFRS has the potential of becoming the one set of "superior" global accounting standards but the US should hold off adoption till then.

Conclusion

IFRS or a global set of accounting standards is a great concept that has several advantages including greater comparability and transparency among financial statements across the globe and cost savings (especially for multinational companies). However, these theoretical advantages can only be attained through consistent application and enforcement of IFRS in practice. Not only is there inconsistent application and enforcement of IFRS across the nations, but also the fact that most of the major capitals that claim to be under IFRS's jurisdiction still have not fully eliminated their national GAAPs. Should the US also adopt IFRS for namesake and pick and choose which standards they will follow? Will the FASB and SEC cede their power to issue and enforce accounting standards to an international board that lacks stable funding? Is IFRS superior enough to US GAAP to call for a conversion? All these questions need to taken into consideration before coming to a conclusion on whether or not the US should adopt IFRS.

As of right now, there are no clear advantages for the US to adopt IFRS but in order to reach the goal of one set of high quality global standards, the FASB and IASB should continue their convergence efforts. Through continuous improvements, IFRS has the potential to be the one set of superior global standards and the US should consider making the switch then. Whether or not the US will fully or partially incorporate IFRS is a question that can only be answered in due time, however, IFRS is not something the US can ignore in this global business world.

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