What's The Rush? IFRS, The SEC, And The Pressure On Accounting Instructors To Teach Still More Financial Reporting Rules

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ABSTRACT

This paper addresses the problems facing accounting instructors in the U.S. as they struggle with pressure to incorporate IFRS into an already crowded financial accounting curriculum. To help instructors better understand the advantages and disadvantages of financial reporting under IFRS, we provide a critical analysis of arguments that have been made for and against IFRS adoption. This analysis should aid instructors in their design of lectures and assignments related to IFRS. We also show that adoption still faces serious obstacles, including the use of U.S. GAAP in contracts and regulations, the prohibition against the use of LIFO, and the Sarbanes-Oxley requirements for funding of a financial reporting standard-setter. We then provide support for an approach for incorporating IFRS in the financial accounting curriculum that places greater emphasis on teaching concepts than on teaching more rules. We conclude by presenting a model for a concepts course that would be taken by students as they begin the accounting major in their junior year.

Keywords: IFRS; SEC; Financial Reporting; Accounting Instructors

INTRODUCTION

Instructors who teach financial accounting courses, especially at the intermediate level, have been feeling a lot of pressure during the past few years to expand the coverage of International Financial Reporting Standards (IFRS). Much of this pressure can be traced back to the SEC's 2008 issuance of a roadmap (SEC File No. S7-27-08) that could lead to the Commission making IFRS reporting a requirement for all publicly-held corporations in the United States. The Big 4 CPA firms have strongly endorsed this proposed course of action, as evidenced by their demands that students interviewing with them for entry-level positions be able to demonstrate knowledge of IFRS. For anyone teaching at a school where placement at the Big 4 matters, this endorsement certainly added to the pressure to be teaching IFRS.

The pressure increased when the AICPA announced that questions related to IFRS would appear on the CPA exam starting in 2011 (AICPA, 2009). Much like Big 4 placement, accounting programs use CPA exam pass rates on the exam as a measure of the quality of an accounting program. In addition, textbooks are adding either chapters, appendices, or integrated coverage of IFRS.

The authors see two reasons why the rush to teach more and more IFRS may be a mistake. First, the SEC still may decide not to require IFRS. The second reason involves the matter of course time and priorities. Instructors will need to cover both IFRS and US GAAP. While the FASB-IASB convergence project has moved the two sets of standards closer together, there are still many important differences. A significant amount of additional material can have major implications for curricula and staffing.

Adding some or all of the IFRS pronouncements to the myriad of GAAP rules instructors already cover will exacerbate a problem critics have been noting for years - the need to establish a desirable balance between procedures and concepts that allow sufficient opportunities to develop critical thinking skills. Instead of either substituting IFRS for GAAP or trying to do both, perhaps the challenge instructors are facing could be turned into an opportunity to fundamentally rethink how we teach financial accounting and reporting.

The rest of this paper is devoted to exploring, in more detail, the reasons cited for slowing the rush to teach IFRS and to offering some thoughts on a new direction for teaching financial accounting. First, we provide a critical examination of the three main arguments that proponents make to support adopting IFRS in the U.S. Second, we present the ten main arguments against SEC adoption of IFRS. Third, we explore the possible ways the SEC may decide the issue as indicated by recent reports and speeches by the staff of the SEC. Both seem to be pointing to a possible compromise solution of the IFRS issue. Fourth, to support the contention that we need less teaching of rules, we will discuss some thoughts of other educators, especially those from Professor Mary Barth, who is a former member of the IASB. Last, we will offer our suggestions for changes in curricula that could help meet the challenges.

The critical analysis of IFRS that follows should be helpful to accounting instructors in several ways. The analysis could help instructors design writing or group presentation assignments focused on IFRS. These would in turn help students discover, through active learning, that IFRS will not solve all financial reporting problems. The analysis could also help instructors develop lecture material dealing with IFRS that goes beyond what appears in textbooks or comes from the Big 4 or the AICPA.

The analysis also should help instructors to recognize the bias that underlies the pressure they are getting from the Big 4 to teach IFRS. The firms are the only ones sure to benefit from SEC adoption of IFRS. It also appears they want to shift some of their training costs on to us in academe. We need to keep our focus on concepts and a critical approach to all accounting rules, both GAAP and IFRS. Finally, the analysis we provide should also help faculty to counter the pressure from the Big 4 by helping to prepare them for discussions of IFRS with firm representatives.

THE MAIN ARGUMENTS IN SUPPORT OF SEC ADOPTION OF IFRS

Those who support SEC adoption of IFRS make one or more of the following arguments: 1) there should be a single set of high-quality globally-accepted accounting standards and that IFRS is that set of standards already; 2) SEC adoption of IFRS will help investors and other users of financial statements by increasing comparability throughout the world; and 3) IFRS is a principles-based set of standards while U.S. GAAP is a rules-based set of standards, and that principles-based is superior.

High Quality Standards

In their responses to the SEC's "Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers", all of the Big 4 CPA firms make the first of the three arguments noted above. (Letters to the SEC in response to the Roadmap appear on the SEC's website at www.sec.gov/comments/s7-27-08/s72708.shtml.) An example is a quotation from KPMG's comment letter:

We continue to support, as the ultimate goal, the use of a single set of high-quality, globally-accepted accounting standards issued by a single global standard-setter for financial reporting purposes. As the Proposed Roadmap states, approximately 113 countries either require or permit the use of IFRS for financial reporting by listed companies. Therefore, IFRS is the most likely means to achieve the goal of a single set of high-quality, globally-accepted accounting standards. (KPMG, April 16, 2009, 1-2)

Some major U.S. corporations also showed support for IFRS as a set of high-quality standards. General Electric cited the need for companies and investors having "a level playing field through the use of a single set of high-quality global accounting standards" (April 21, 2009, 2). Wal-Mart expressed the belief that IFRS "has the potential for being that set of standards" (April 20, 2009, 1). However, it seems premature to conclude that IFRS is of high-quality. IFRS has been widely used only since 2005 when the European Union (EU) adoption went into effect. Countries with major economies, such as China and Japan, have either recently adopted IFRS, are permitting the use of IFRS, or are in the process of doing so. Other countries, such as India, have chosen to depart from IFRS in various ways.

As part of its response to the SEC's proposal, the Financial Policy Reporting Committee of the Financial and Accounting Section of the American Accounting Association discussed the findings of ten studies published between 2003 and 2009. The Committee concluded the following: "In summary, the results suggest that IFRS reflects standards that are generally 1) higher quality than non-U.S. accounting standards, and 2) similar or lower quality relative to U.S. GAAP" (2010, 122). So, while IFRS eventually may fulfill its promise of high-quality accounting standards, it is too early to come to such a conclusion.

Comparability

The second argument in favor of adoption is that IFRS will improve comparability. As the SEC states, having a single set of standards "would facilitate cross-border capital formation while also helping to provide investors with the comparable and material information they need to make informed decisions about investment opportunities" (Release No. 33-9109, 3). In their research report commissioned by the FASB, Hail, Leuz, and Wysocki (2009, 12) note that "more comparable reporting across firms from different countries facilitates cross-border investment and the integration of capital markets". However, after reviewing several studies of the role of accounting standards and comparable reporting, the authors concluded that the "evidence implies that moving to a single set of accounting standards is not enough to produce comparability of reporting and disclosure practices, even if these standards are strictly enforced and implemented" (2009, 16).

In its letter to the SEC, IBM expressed strong support for a single set of standards that "will enable investors to compare companies across national boundaries, enhance the efficiency of capital markets worldwide, improve the quality of information reported by entities in various jurisdictions, and reduce the burden and cost of compliance with multiple reporting frameworks . . . " (February 19, 2009, 1).

Price Waterhouse Coopers asserts that a "globally consistent accounting framework will provide the cross-jurisdiction and cross-industry transparency and comparability demanded by investors, enabling them to make informed capital allocation decisions" (April 20, 2009, 1). However, the firm's survey of IFRS adoption by country, conducted in September 2010, shows that IFRS may not be able to provide truly comparable financial statements. Table 1 summarizes the status of IFRS adoption in selected countries with some of the largest economies in the world.

Table 1: Varying Adoption Of IFRS By Countries With Significant Economies

Country Names	Description of IFRS Adoption
Brazil	Starting in 2010, listed companies must file financial statements prepared in accordance with the CPCs, which is new Brazilian GAAP. This is IFRS as adopted locally. Certain options allowed in IFRS are not allowed in Brazil and some additional disclosures are required. According to PWC, there are very few other differences between the CPCs and IFRS. For regulatory purposes, banks and insurance companies use IFRS as published by IASB. (PWC, 2010, 36-37)
Russian Federation	Listed companies will have to prepare their consolidated financials in accordance with IFRS as of the end of the year after the Federation officially adopts IFRS. However, IFRS has not yet been adopted. The use of IFRS is already permitted for regulatory filings. (PWC, 2010, 108-109)
India	For listed filings, financial statements must be prepared in accordance with Indian GAAP, not IFRS. The use of IFRS is prohibited for statutory filings. The Indian Institute of Chartered Accountants has announced a plan for a transition to an Indian version of IFRS, starting April 2011 and to be completed April 1, 2014. (PWC, 2010, 135-136)
China	For listed filings, companies must use Chinese Accounting Standards (CAS) that are somewhat converged with IFRS. However, PWC notes that it is not a direct translation of IFRS. For statutory filings, IFRS is prohibited. In fact, Chinese financial institutions were required to use IFRS prior to 2008, but the requirement was removed in 2008. The Chinese Ministry of Finance has plans to further converge CAS with IFRS in the near future. (PWC, 2010, 131-132)

Hong Kong	For both listed and regulatory filings, companies use local GAAP (HK Financial Reporting Standards) which have been mostly converged with IFRS. (PWC, 2010, 133-134)
Japan	Since March 31, 2010, some listed companies have been permitted to use IFRS for both listed and statutory filings. The Financial Services Agency (FSA) of Japan issued a roadmap in June 2009 for mandatory IFRS adoption. A final decision is expected in 2012. It will be IFRS, as adopted by the FSA, and every individual standard must be approved by the FSA. Similar to here in the U.S., the ABJ, the Japanese standard-setter, has been working closely with the ISAB on convergence since March 2005 with a Memorandum of Understanding, known as the Tokyo Agreement, issued in August 2007. (PWC, 2010, 142-143, and IASB Press Release, June 10, 2011)
Korea (Republic of Korea)	IFRS is required for all listed companies, except for financial institutions, for both listed and statutory filings from 2011. It was permitted starting in 2009. This is IFRS as published by the IASB and translated word-for-word into Korean. (PWC, 2010, 146-147)
Australia	IFRS is required for most listed companies for both listed and statutory filings. There are some additional disclosures required. The Australian accounting standards for not-for-profit and public entities include some provisions that are not always compliant with IFRS. (PWC, 2010, 220-221)
Canada	The Canadian ASB approved the incorporation of IFRS into the Canadian Institute of Chartered Accountants Handbook without modification. Listed companies must use IFRS for all filings starting in 2011. (PWC, 2010, 8-9)
Mexico	In November 2008, The Mexican securities regulator and the Mexican accounting standard-setter decided to adopt IFRS, effective for listed companies for periods ended December 31, 2012. This is IFRS as published by the IASB. However, for statutory filings, companies may either use IFRS or local Mexican FRS. In addition, the standard-setter is in the process of converging all of Mexican FRS for all Mexican private entities. (PWC, 2010, 22-23)
Germany	IFRS is permitted for stand-alone financial statements as long as consolidated financial statements are prepared using local GAAP (HGB) and are filed. The statutory accounts must be prepared in accordance with local GAAP. Furthermore, no convergence of German GAAP and IFRS is planned. German Statutory GAAP has been updated recently to make it more similar to IFRS, but substantial differences still remain. (PWC, 2010, 72-73)
France	IFRS is prohibited for statutory filings. The French standard setting body has not announced any adoption or convergence plans. (PWC, 2010, 68)
United Kingdom	IFRS is permitted but not required for statutory filings. Companies can still use UK GAAP if they wish, but once IFRS is adopted, there is no going back to UK GAAP. The UK ASB has incorporated some IFRS into UK GAAP. The Board has issued an exposure draft of a standard that would create three tiers of reporting entities, with the top tier required to apply EU-adopted IFRS for periods starting on or after July 1, 2013. (PWC, 2010, 124-125)
Italy	IFRS is required for banks and some insurance companies and is permitted for all other companies for statutory filings. Partial convergence of local GAAP and IFRS is planned, but there is not yet a timetable. (PWC, 2010, 84-85)
Spain	IFRS is permitted for statutory filing. If it is not used, then companies must use New Spanish GAAAP, which became effective January 1, 2008, and is essentially IFRS with some differences. (PWC, 2010, 116-117)

There are many other countries that have either adopted IFRS completely, partially, or not at all.

Principles-based Vs. Rules-based

The third argument often made to support adopting IFRS is that the IASB writes principles-based standards that result in more useful financial statements and disclosures. Six years before the SEC started talking about adopting IFRS, the SEC staff studied possible adoption in the U.S. of a principles-based system.

The staff notes that "there was a growing sense that the standard setting process in the U.S. may have become overly rules-based" (SEC, 2003, 10). The staff lists three commonly accepted problems associated with rules-based standards: 1) they contain numerous bright-line tests (the FASB's criteria for lease capitalization is a favorite example of such a standard) which create opportunities for financial engineering; 2) they contain numerous exceptions, "resulting in inconsistencies in accounting treatment of transactions and events with similar economic substance"; and 3) they produce the need for very detailed guidance, "creating complexity in and uncertainty about the application of the standard" (SEC, 2003, 10). The staff then gives its definition of an ideal principles-based system:

In our view, the optimal principles-based accounting standard involves a concise statement of substantive accounting principles where the accounting objective has been incorporated as an integral part of the standard and where few, if any, exceptions or internal inconsistencies are included in the standard. Further, such a standard should provide an appropriate amount of implementation guidance given the nature of the class of transactions or events and should be devoid of bright-line tests. Finally, such a standard should be consistent with, and derive from, a coherent conceptual framework of financial reporting. (SEC, 2003, 12)

Sir David Tweedie (2007), then Chairman of the IASB, does not portray IFRS as being principles-based yet, but he argues strongly for moving in that direction. He notes “a growing sense that accounting is becoming too complex” and that “financial statements are becoming ever more difficult for even the sophisticated investor to use” (2007, 2). According to Tweedie, “IASB is well-positioned to take the lead in the effort to develop principles-based standards with the great majority of the world’s economies moving toward IFRSs” (2007, 2). He then describes (2007, 7) some of the elements that would go into the creation of that system:

1. If complexity is to be avoided, the exceptions to the scope and to treatments will have to be eliminated. Similarly, application guidance will have to be limited to only what is absolutely necessary to operationalise the principle.
2. Principles should be tied to the conceptual framework.
3. A principle-based standard relies on judgements. Disclosure of the choices made and the rationale for these choices would be essential.

Tweedie is quite aware that this change in approach will be difficult to accomplish. “Use of judgement will require preparers and auditors to exercise courage and to defend their judgements.” (2007, 7) One of the implications for educators is that the “training of accountants would have to change,” with basic concepts having to be emphasized in school (2007,8).

Miller and Bahnson (2010a) describe principles-based versus rules-based as a bogus issue. They note that educators need high-level concepts to help students understand what accounting is supposed to accomplish and for prescriptive writing. Statement preparers may prefer broad principles for their flexibility, but auditors find comfort in detailed rules and regulators (like the SEC) as they need them for enforcement purposes. They conclude that principles are needed to constrain standard-setters against losing sight of producing useful financial statements. However, rules are needed to guide and protect practitioners while giving regulators a basis for prosecuting violators who stray outside the lines (2010a, 16).

Benston, Bromwich, and Wagenhofer (2006b), in a discussion of reasons for rules-based standards, note FASB has explained that they make exceptions to the principles underlying their standards because the standards result from “the Board having to make compromises with presumably powerful interest groups that prevented it from implementing its desired principles” (2006b, 168). To clarify what is meant by a principles-based approach, Benston et.al. examine the currently different approaches to lease accounting under IFRS and under U.S. GAAP. As noted earlier, FASB ASC 840 is often cited as a rule-based standard due to its bright lines. The authors point out that the IASB’s more principles-based approach results in “less verbose standards than with rules-based standards” (2006b, 183). In IAS 17, the IASB defines a finance lease (equivalent to a capital lease under U.S. GAAP) as “a lease that transfers substantially all the risk of rewards incident to ownership of an asset” (IASB, par. 3). In contrast to the FASB’s bright lines, the IASB’s third and fourth criteria for capitalization are to classify the lease as a finance lease if the lease term is for the ‘major part’ of the asset’s economic life or the present value of the minimum lease payments is ‘substantially all’ of the fair value of the leased asset (Benston, 2006b, 183). Under the current FASB lease rules, managers can structure lease agreements to have the lease recorded as operating instead of capital. Under IAS 17, it is conceivable that “accountants might account for the same leases differently, depending on how they interpret ‘a major part’ and ‘substantially all” (2006, 183). Benston et al. (2006, 183) conclude that “. . . both approaches might result in differences or be abused”.

One of the most outspoken academic critics of IFRS adoption has been Professor Shyam Sunder. With regard to IFRS being high-quality standards, Sunder asks, “Is it possible to put two standards, say those written by the FASB and the IASB, side-by-side and obtain some reasonable agreement across experts about their quality? . . . [N]either the quality nor the methods of measuring the quality of a standard has been specified or explained" (2009, 104).

Sunder states his belief that the main motivation for those committed to IFRS adoption is a desire for the replacement of our supposed rules-based set of standards with a principles-based set, "but nobody can tell you what it means or give you substantive examples" (2009, 103). He notes that a March 2008 compilation of IFRS and their official interpretations and guidance is 2,752 pages long. "One would have to think long and hard to find a profession whose principles require this many pages to state." (2009, 103)

Therefore, instructors need to be careful when talking to their students about IFRS. They should state that while it is possible that IFRS may prove to be high quality standards, there is not enough evidence to make that claim as yet. As for comparability, they should explain that if companies in all the major economies use IFRS as written by the IASB, then users of the financial statements of these companies could compare them with confidence. However, the international community is a long way from achieving that goal. Finally, instructors need to make it clear that IFRS is not purely principles-based and that U.S. GAAP is not purely rules-based. Both sets of standards are a mixture and are likely to remain that way.

THE MAIN ARGUMENTS AGAINST SEC ADOPTION OF IFRS

In this section, we discuss some of the arguments that have been made against adoption of IFRS in the U.S. Our review of the literature and the many letters received by the SEC on this topic helped us to identify what we believe are the ten most important arguments.

1. The Cost Of Switching To IFRS Will Be Too Great And It Will Exceed Any Possible Benefits.

ExxonMobil predicted that "conversion to IFRS will be a major cost burden that would easily exceed the cost of SOX 404 implementation" (2009, 1). Chevron estimates its conversion costs at $250 million. They describe a daunting process: "Embedding IFRS into the business processes and systems of companies the size of Chevron is a multi-year and costly undertaking" (April 16, 2009, 2). McDonald's is also very concerned about the costs involved with a switch to IFRS: "the costs to comply with the mandate would be extraordinary" (2009, 1). They believe "significant costs would also be incurred by other constituents, including government agencies, educators, credit agencies and financial institutions. We have significant concerns with justifying these costs compared with the incremental benefits of converting to IFRS relative to convergence" (2009, 2). Wal-Mart also commented on the cost of conversion, stating that the process "will be an expensive project for any company, but especially multi-national companies that may not have consistent systems and process throughout the global organization.

David Reilly of *The Wall Street Journal* spoke about IFRS. Reilly wonders, "Why are we so determined to abandon our own system and move to international standards?" While he sees few benefits from such a change, "the costs of switching will be high". He quotes an unnamed CFO of a large publicly-traded U.S. corporation to support his statement regarding costs. In a letter to the *Journal*, this executive wrote the following: "The conversion process, I believe, will cost most companies about 0.5% to 1.0% of revenues, with those costs spread out over a three-year conversion process. Based on the S&P alone, that translates to more than $40 billion to $60 billion in costs." (2011, 8-9)

2. Funding Of The IASB Is Provided By Contributions Which Make It Vulnerable To Pressure From Donors, And This Arrangement Violates Section 109 Of The Sarbanes-Oxley Act Of 2002.

NASBA expressed serious concerns about the way the IASB is funded and how that affects its independence. They note that in contrast with the current situation of the FASB, the IASB is more like the FASB prior to the passage of Sarbanes-Oxley - "Dependent on contributions, including significant funding from public accounting firms. Therefore, the IASB is not free from influence by members or member organizations of public accountants or, for that matter, the clients of such firms." (2009, 5)

Miller and Bahnson (M&B) also discussed the problem of funding for the IASB. "A donations-based funding arrangement can intimidate board members while also creating an entitlement mentality in too many preparers and auditors, in the sense that they come to believe that their "gifts" endow them with the right to influence outcomes" (2009a, 14). McDonald's notes that the SEC must ensure that "the IASC Foundation has a secure funding mechanism that permits the IASB to function independent of special interest groups" (2009, 3).

M&B (2009b) also discuss the rules for funding an accounting standard-setter contained in the Sarbanes-Oxley Act of 2002. Sections 108 and 109 of the Act requires the PCAOB to fully fund its designated standard-setter. The authors point out that if the SEC adopts IFRS for U.S. corporations, "the IASB would have to be 100 percent funded by mandatory fees collected from U.S. companies (2009b, 16)". They ask us to consider the following scenario: "The IASB would meekly accept gifts from the United States while Congress would have to force U.S. managers to hand over shareholders' money to an international body well beyond the SEC's reach." (2009b, 16). They note several reasons why this scenario is not a plausible one.

3. Having The IASB As A Monopoly Standard-setter Will Limit Experimentation And Improvement In Accounting Standards.

Sunder (2009) examines the possible danger associated with having a monopoly regulator writing all of the world's accounting standards. He notes the complexity of designing an accounting standard that will affect millions of individuals and suggests that it is almost impossible to design it properly without some sort of field trial. He fears that having one standard-setter risks discouraging "the search for, experimentation with, and ultimate adoption of innovative solutions to financial reporting problems. Under a monopoly regulator, learning from trial-and-error and from alternative practices is not possible" (2009, 106).

In their book concerning the development and future of accounting standards, Benston, Bromwich, Litan, and Wagenhofer (2006) note their fear that the creation of a monopoly standard-setter will limit experimentation and improvement of accounting standards and practices. They believe that:

there are problems with any monopoly standard-setter - whether it be the FASB, the IASB, or any other similar body - in that it has no incentive to respond quickly to market forces or necessarily search for the highest-quality accounting standards, let alone keep its actions free from political influence. An international rule-making body, where consensus must be reached across standard-setters from different countries, may be even slower in issuing new rules . . ." (2006, 236)

4. There Are Serious Concerns About How The Proper Use Of IFRS Could Be Enforced Around The World In A Consistent Manner.

Ball (2006) sees a danger for investors of uneven implementation of IFRS. He feels there are "overwhelming political and economic reasons to expect IFRS enforcement to be uneven around the world" (2006, 15). He states that "the primary effect of local political and market factors will lie under the surface, at the level of implementation, which is bound to be substantially inconsistent across nations. Does anyone seriously believe that implementation will be of equal standard in all . . . countries . . . that have announced adoption of IFRS in one way or another?" (2006, 16)

Ball also raises the possibility that the IFRS "brand name" could create an illusion of high quality financial reporting. He expects that the countries with less well-developed accounting standards of their own, which seem to comprise the majority of IFRS adopters, will not incur much cost because they will not do much to enforce the adopted standards. Countries like the U.S. and the UK that already have the necessary institutions in place will incur high adoption costs. According to Ball, these institutions include "higher-quality audit profession, more effective courts system, and better shareholder litigation rules" (2006, 23).

M&B (2010b) also addressed the likelihood that IFRS will create an illusion of uniformity if they are adopted everywhere, expressing their belief that those advocating IFRS adoption here are either naïve or worse because they:

seem to assume the rest of the world has regulatory and enforcement systems on the same order as the U.S. SEC. To the contrary, the SEC is the product of 75 years of hard work and millions upon millions of dollars. There are no other market regulators with its human, financial, and political resources. Yet, even it struggles to stay ahead of auditors and managers who deceive and defraud by bending and breaking GAAP. (2010b, 14)

NASBA points out that in an ideal world, countries could create an acceptable international regulatory organization, but "we do not live in an ideal world and it is unlikely that an international regulatory organization would ever effectively be created by nations . . ." (2009, 3). Jack Ciesielski, a well-known commentator in the accounting area, notes that instead of continuing the rush to converge, "maybe what is needed is a few more years of friendly competition between standard-setters" and a revised roadmap that "includes protection from political pressure and the effective worldwide enforcement of accounting standards" (2008, 17).

5. Political Considerations Around The World Will Make The Goal Of A Single Set Of High Quality Global Accounting Standards Impossible To Achieve.

Benston et al. (2006a) are convinced that the goal of having a single set of global accounting standards cannot succeed, stating:

we find it hard to believe that a single set of global standards can eventually evolve and, more importantly, be sustained in the face of often substantially different national accounting regimes. Sheer political considerations suggest that the same domestic political interests that were successful in the past in influencing the direction taken by a national standard-setter would resist any shift of decision-making to an international body that could not be as easily swayed by the local interests of some national constituencies. (2006a, 231)

Benston et al. then provide an example of what they mean. "When the IASB commenced its deliberations on an [employee stock] options standard, the chairman of the Committee on Financial Services of the U.S. House of Representatives, Michael Oxley (co-sponsor of the Sarbanes-Oxley Act of 2002), wrote to the IASC Foundation saying that the development of a standard that required expensing would undermine the acceptability of the IFRS. To its credit, the IASB did not give in . . ." (2006a, 232).

6. The European Union (EU) Has Too Much Influence Over The IASB.

Benston et al. are concerned by what happened to the IASB's rules governing financial instruments (IAS 39) when the EU exerted pressure to rewrite the rule. "First, the IASB did not enforce its own rules of due process when it reopened a standard it had adopted only two months before, after an unusually long official comment period." They feel that any more such episodes would serve to undermine the IASB's claim to being the global standard-setter, "especially as IASB standards themselves have no political authority backing them" (2006a, 233).

Miller and Bahnson (2009a) also discuss the battle between the IASB and the EU over using mark-to-market to value bank loan portfolios. "Key officials at the EU supported the bankers' pleas and subsequently put pressure on the IASB to create an easy way out. The board initially resisted but then ultimately caved when it became clear that the EU really would make good on its threats to carve out existing mark-to-market rules from the list of acceptable practices" (2009a, 16).

7. There are Many Existing Contracts, Debt Covenants, And Regulations In The U.S. That Require The Use Of U.S. GAAP.

The regulatory area is another area where many who wrote to the SEC have expressed concern. The California Water Service Group, a water utility serving over 100 communities in four states, stated that "their (IASB) efforts have fallen significantly short of reflecting the economic reality of the U.S. utility industry. These shortfalls can have a profound effect on North American utilities, the Public Utility Commissions that regulate us, and our ability to raise capital in the public markets" (2010, 1). They note that in the U.S., regulatory accounting principles are found in FAS 71, which have been part of GAAP for almost 30 years. According to this company, under IFRS, no equivalent to FAS 71 exists, nor is there a proposed method for accounting for regulated utilities.

The Financial Executives' Institute points out that "many contracts use definitions based on U.S. GAAP and specifically refer to U.S. GAAP for terminology and calculations. The FEI letter provides a list of regulatory bodies that "have specific U.S. GAAP language that would need to be addressed to avoid adverse unintended consequences" (2010, 2).

8. IFRS Does Not Allow The Use Of LIFO Which Could Be Very Costly For Some Companies Due To The IRS' LIFO Conformity Rule.

The Business Roundtable notes that under IFRS, a company cannot use LIFO. Companies that could no longer use LIFO would face "considerable additional tax liability" and the Business Roundtable states that a "solution to the LIFO issue should be established prior to mandatory conversion to IFRS" (2009, 3).

ExxonMobil expressed its concern over the fact that IFRS does not allow the use of LIFO and warns that this is "another key impediment to broad-based U.S. issuer support for IFRS conversion" (2009, 3). The company's estimated tax liability would be in excess of $4 billion if Exxon could not use LIFO (Spiceland, 411). Chevron (2009, 1) also expressed serious concern about the IFRS ban on the use of LIFO.

9. The Push For IFRS Is Not Coming From Investors And Financial Statement Users But From Statement Preparers And Auditors.

M&B (2009b) state that the IASB is going to perpetuate a problem of accounting rules being written for the benefit of the profession and not for the users. They note that "the accounting profession has long used its political clout to focus on the supply side of financial reporting, meaning that standards are shaped to assuage preparers' and auditors' worries instead of serving statement users' information needs" (2009b, 14).

Many of the letters to the SEC regarding possible IFRS adoption express concern about the costs involved for the companies directly affected and for our society as a whole. Some of these letters explicitly, or by implication, note how much the Big 4 firms are likely to benefit from the imposition of such a cost burden. For example, Jack Ciesielski, in his letter for the Investors Technical Advisory Committee, notes that "due to their global reach, the most significant body of IFRS expertise lies in the Big Four auditing firms" (2009, 5). He goes on to note that these firms are "a group that this proposal would enormously benefit from a business standpoint", and he expresses the group's discomfort "with the additional monopoly status that this proposal's convergence approach would confer upon them" (2009, 5).

In its comment letter, NASBA notes that "companies that do not have IFRS expertise on staff would have to hire individuals, other than their auditors, to train their staff, at significant expense. Investors, financial analysts, bankers, and others would have to be trained by individuals familiar with IFRS or have to rely on continuing education courses - a burden for all" (2009, 7). It is likely most of this lucrative work would be done for corporations by a Big 4 firm that is not their auditor and much of the continuing education provided by the AICPA. The IMA makes this clear in its letter to the SEC when it states, "Most of the expertise within the U.S. currently resides within the major accounting firms . . ." and "The AICPA and other private companies have also developed, or are in the process of developing, comprehensive training on IFRS" (2009, 5). GE, which supports switching to IFRS, still notes that conversion "will cause significant internal resource constraints that would likely force some U.S. issuers to outsource important implementation steps to costly external service providers" (2009, 3).

10. The Immaturity Of IFRS And The Lack Of Proof That It Is Superior To U.S. GAAP

ExxonMobil notes the principles-based nature of IFRS and views its "relative immaturity" as the basis for concern about its suitability for use in this country's regulatory and legal environments (2009, 1). Wal-Mart also questions "the maturity of IFRS as a global set of standards" (2009, 3).

McDonald's does not believe that mandatory use of IFRS is best for investors. "The Roadmap does not provide compelling arguments to support the conclusion that IFRS is better than U.S. GAAP and, in fact, puts forth a number of comments that would indicate that U.S. GAAP meets the needs of investors and issuers in the global markets that exist today" (2009, 1). ITAC states that the roadmap "does not establish that the current U.S. GAAP reporting system is inherently ineffective, uninformative, or otherwise flawed. Nor does it establish that IFRS is inherently superior to U.S. GAAP" (2009, 2).

Table 2 provides a summary of the ten arguments against IFRS adoption discussed in this section along with identification of those making each argument.

Table 2: Summary Of Arguments Against Ifrs Adoption

Arguments Against Adoption	Parties Making The Arguments
1. The costs of switching to IFRS will be too great and it will exceed any possible benefits.	ExxonMobil, McDonald's, Chevron, Wal-Mart, New York State Society of CPAs, and David Reilly
2. The funding of the IASB is provided by contributions which makes it vulnerable to pressure and this arrangement violates Section 109 of the Sarbanes-Oxley Act of 2002.	NASBA, Miller and Bahnson, and McDonald's
3. Having the IASB as a monopoly standard-setter will limit experimentation and improvement in accounting standards.	Shyam Sunder, Miller and Bahnson, and George Benston et al.
4. There are serious concerns about how the proper use of IFRS could be enforced around the world in a consistent manner.	Ray Ball, Miller and Bahnson, Riley, NASBA, and Jack Ciesielski
5. Political considerations around the world will make the goal of a single set of global accounting standards impossible to achieve.	Benston et al.
6. The European Union (EU) has too much influence over the IASB.	Benston et al., and Miller and Bahnson
7. There are many existing contracts, debt covenants, and regulations in the U.S. that require the use of U.S. GAAP.	California Water Service Group, and FEI
8. IFRS does not allow the use of LIFO and this could be very costly for some companies due to the IRS' LIFO conformity rule.	Business Roundtable, ExxonMobil, and Chevron
9. The push for IFRS is not coming from investors and financial statement users but from statement preparers and auditors.	Miller and Bahnson, David Riley, Jack Ciesielski, NASBA, IMA, and GE
10. The immaturity of IFRS and the lack of proof that it is superior to U.S. GAAP.	ExxonMobil, Wal-Mart, and McDonald's, and ITAC

THE SEC SHOWS ITS HAND

While a formal decision on IFRS adoption is not expected until sometime in 2012, some indications of the direction that decision may take have emerged recently. The first hint came from the SEC's Deputy Chief Accountant, Paul A. Beswick, in a speech he gave at the AICPA National Conference on Current SEC and PCAOB Developments on December 6, 2010. Beswick coined a new term - "condorsement" - when he said, "So what would be a reasonable approach for the U.S.? In our October update, we highlighted that the majority of jurisdictions are following either a convergence or an endorsement approach. In my opinion, if the U.S. were to move to IFRS, somewhere in between could be the right approach. I will call it a "condorsement" approach. Yes, I admit I just made up a word." (2010, 2) Beswick then stated that "U.S. GAAP would continue to exist. The IASB and the FASB would finish the major projects in their MOU". He then sketched out a continuing role for the FASB as follows: "The FASB would work to converge existing U.S. GAAP to IFRS over a period of time for standards that are not on the IASB's agenda." (2010, 2)

In an update of the work plan issued by the SEC's Office of the Chief Accountant on May 26, 2011, "Exploring a Possible Method of Incorporation", the staff notes (2011, 5) that countries that have adopted, or are planning on adopting IFRS, have taken one of two approaches. The first is to converge local standards with IFRS, but without a firm commitment to fully incorporate the standards as written by the IASB (the Convergence Approach). One country that follows this approach is the People's Republic of China. The second route is to have a form of local endorsement (the Endorsement Approach). The staff notes that a large number of countries, including those within the EU, appear to be following the second approach.

The staff concludes its document with a discussion of possible benefits and risks of the condorsement approach. This discussion makes it clear that the SEC staff is paying close attention to the concerns raised by many of the respondents about the use of U.S. GAAP in so many of our legal and regulatory environments. "This would be significant following a transition to IFRS because of the current prominence of U.S. GAAP references in U.S.

laws, contractual documents, regulatory requirements and guidelines . . . By retaining U.S. GAAP as the basis of financial reporting for U.S. issuers, the complexities associated with changing all of these references to U.S. GAAP would be mitigated" (2011, 23).

In his comments to the SEC, Jack Ciesielski says the staff failed to address the following issue: "Is there a legal contradiction in using IFRS in the United States while funding the FASB as required by the Sarbanes-Oxley Act?" (2011, 2) He predicts that this approach would result in the U.S. producing its own national version of IFRS "to assure continued funding for the two standard-setters" (2011, 2).

In February 2012, the SEC's Chief Accountant, James Kroeker, speaking at an IFRS Advisory Council meeting, indicated that the staff would present its recommendations to the commissioners in a few months and that "the SEC has moved away from the term "condorsement" to describe a possible method for incorporation of IFRS, should it occur" (Tysiac, 1). Kroeker explained that the SEC is now "using the term "endorsement" to describe a system in which FASB would look at IFRS standards and consider how to implement and incorporate them in the United States" (Tysiac, 1). Kroeker noted that the term U.S. GAAP is embedded in various regulatory requirements and private party contracts, so moving away from that term is a big problem. He also stated that "if IFRS were adopted in the U.S., ultimate responsibility for financial reporting standards would rest with a U.S. authority" and that he prefers that the FASB assume that role (Tysiac, 2).

In July 2012, the SEC made public its Final Staff Report on IFRS. At over 140 pages, the report is a daunting read, but fortunately Floyd Norris covered quite well in *The New York Times*. As his articles ("S.E.C. Wary on Global Accounting Standards" and "Accounting Détente Delayed") indicate, the probability of the SEC requiring its registrants to adopt IFRS anytime soon is now quite low. Norris notes that the staff acknowledged that IFRS is perceived to meet the criterion of being high quality standards but that adopting them here is "not supported by the vast majority of participants in the U.S. capital markets" (2012a, C1). The staff was also influenced by the fact that "many domestic companies voiced fears about the cost of making changes" (2012a, C2). Norris notes that even the EU - the most enthusiastic supporter of IFRS - has adopted some of the rules with carve-outs and exceptions, and the staff expressed its concern that "there was diversity in the way the standards were applied in different countries, even when the rules were identical" (2012a, C2). Their concern echoes the questions raised earlier in this paper about the illusion of comparability that everyone adopting IFRS will bring.

In the second of the articles by Norris, with more time to read the entire report and observe some reaction to it, he makes things clear when he states "American GAAP will not be replaced by international rules" (2012b, C3). It now appears that the FASB will remain in place, with part of its job being to endorse, or not, new international standards before they can be incorporated into GAAP. This outcome has to be viewed as a major defeat for the chief proponents of U.S. adoption of IFRS, the Big 4 CPA firms. The SEC staff is still very concerned about the lack of an independent and dependable funding source for the IASB and even notes that "the staff's most significant concern about the funding approach is the continued reliance on the large public accounting firms to provide funds to the IASB" (SEC, 2012, 6). So, while some of us question the Big 4's support for IFRS because of their self-interest in the lucrative consulting opportunities IFRS adoption would create, it appears the SEC is even more concerned about these firms being able to have too much influence over the writing of the rules by the IASB. Thanks to the funding mechanism included in the Sarbanes-Oxley Act, these firms no longer have that level of influence over how the FASB writes its rules.

NEED FOR MORE CRITICAL THINKING AND LESS EPHASIS ON RULES

No matter how the SEC decides the IFRS adoption issue, teaching financial accounting courses, especially intermediate accounting, is going to be more challenging in the future. Thanks to the convergence efforts of the FASB and IASB, many changes in many complex topics have occurred or are likely to occur soon. (See the Projects section of FASB's website for details at http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1218220137074 .)

Despite the convergence efforts, differences between U.S. GAAP and IFRS remain. Even if the SEC does fully adopt IFRS for its registrants, most of the several million non-registrant business entities will continue to use U.S. GAAP. If accounting educators keep their current teaching model with its emphasis on rules and procedures, they will need to add several more courses to the financial accounting sequence. Given the continuing shortage of Ph.D.-qualified accounting faculty and the upcoming surge of retirements, such an increase does not seem practical. [For the dimensions of the seriousness of the faculty shortage, see Plumlee et al. (2006), AAA/APLG (2005), Ruff et. al. (2009), and Scott (2009).] Therefore, what can accounting educators do?

Someone who has given this problem a lot of thought is both an accounting professor and a former member of the IASB - Dr. Mary Barth. She notes that accounting educators need to prepare their students for the world they will live in. She states that recognizing this future implies "increasing the focus on *teaching the concepts* (emphasis added) that underlie financial reporting and how to make judgments consistent with those concepts and helping to dispel common misunderstandings about the concepts . . ." (2008, 1163). Speaking of the two boards' conceptual frameworks as one, she expresses her belief that "Financial reporting education should begin with the concepts in the framework. Although the conceptual framework changes over time, it does so much less frequently than standards do. Thus, students who understand the conceptual framework will have knowledge that is more enduring" (2008, 1163-1164).

Barth notes that accounting instructors "also need to teach accounting students how to make judgments. Despite the appearance of precision in financial statements, students must understand that financial reporting is replete with judgments. Students often are surprised that, in many situations, there is no single answer. With the expansion of principles-based standards, the number of such situations is likely to increase" (2008, 1165).

Sunder (2009) also discusses the implications for accounting education. Noting the dramatic expansion in recent years of the authoritative accounting standards, he observes that accounting instructors have placed too much emphasis on memorization of written rules. "With the accounting standards written by the FASB being granted a monopoly status for public companies, intermediate accounting classes have moved toward focusing on line-and-verse application of those standards and not on critical examination of the merits of alternative accounting treatments for various classes of transactions." (2009, 108) Much like Barth, Sunder sees a better direction for accounting education:

We could follow the example of law schools and consider moving the accounting educational system in the direction of teaching general principles and higher-level non-routine skills that are largely independent of the specifics of the standards issued . . . Students educated in such a higher-level system of education will have developed the powers of abstraction and independent critical thinking that would allow them to adjust to changes in standards and apply them to specific transactions using judgment developed through education in general principles. (2009, 109)

Carmona and Trombetta (2010) make it clear that EU adoption of IFRS "did not produce a common set of 'European' accounting standards across EU state members but rather the cohabitation between a set of 'international' standards and a variety of 'national' standards. Although national accounting standards have converged in the recent past to IAS/IFRS, they are still not fully equivalent across countries and European accountants have to adapt to this diversity" (2010, 2).

They describe an approach in which "educators address possible alternative solutions to the specific accounting problem and identify which is/are consistent with current regulatory guidance. In this respect . . . the sequence of addressing first the conceptual and theoretical structure of the accounting issue, followed by the solutions established by each regulator, follow naturally" (2010, 4). Noting, as did Barth, that professional judgment is so essential for accountants and auditors to do their jobs, they suggest that "the mechanical application of rules and diligent completion of box ticking may be replaced by careful analysis of the economics and strategic underpinnings of the transaction" (2010, 4).

A PROPOSAL FOR FUTURE CURRICULA

Accounting instructors will need to incorporate IFRS in the financial accounting principles course in some way. While the majority of students in those classes are not accounting majors, they still need to be aware of the global nature of financial reporting. Several financial accounting textbooks already have incorporated discussions of IFRS in many of the chapters.

Our major concern is the financial accounting courses within the accounting major - the required courses for intermediate and advanced and any elective courses in financial accounting, such as international accounting or senior seminars. We do not comment on other areas of accounting, including managerial, cost, tax or auditing, though some (albeit minor) adjustments may be necessary in those courses as well.

We propose that the first course after completion of the introductory financial and managerial sequence should be a financial accounting and reporting concepts course that takes an approach that Tweedie, Barth and Sunder advocate (see above). This course would not use exercises or problems for homework or on exams. The students would read, discuss, and write about accounting. Course materials should include the conceptual frameworks of the FASB and the IASB, along with books and articles dealing with basic accounting theory. Instructors would devote time to broad topics that have provoked controversy and disagreement, e.g. fair value vs. historical cost, balance sheet emphasis vs. income statement emphasis, and earnings management. As part of the coverage of fair value, accounting educators could expose students to the use of present value concepts in the context of financial accounting.

The AAA committee reports that often appear in *Accounting Horizons* are an excellent source of material for a theory course. For example, instructors could use the Financial Accounting Standards Committee (FASC) report on financial reporting standards published in September 2010 to help students see that some of the positions taken by FASB and IASB on fundamental conceptual issues are not the only ways to view these issues. For example, the report provides strong support for historical cost accounting and raises serious concerns about the use of fair values in financial reporting. The FASC warns that "If fair market valuation is to be applied, at a minimum, the market in question must be liquid and reliable" and that "these approaches tend to degenerate into easy-to-manipulate versions of mark-to-market accounting" (2010, 476). The committee notes "the apparent balance sheet (asset and liability measurement) approach in the FASB-IASB conceptual framework discussion" (2010, 482), but offers the contrasting view of "the income statement as the centerpiece in financial reporting" (2010, 477). Having students read the conceptual framework documents, along with material like this FASC report, initially may be confusing for them and create discomfort for those who just want to learn the rules. In the long term, it should help foster a healthy skepticism about accounting rules.

Students would learn about the roles played by the SEC, the FASB and its predecessors, and the IASB and its predecessor in the development of financial reporting. Accounting instructors would describe the political nature of standard setting by studying the difficulties faced by standard-setters in dealing with such issues as oil and gas/successful efforts, employee stock options, and fair value for financial instruments. Instructors would use various standards as examples to help students understand what is meant by principles-based and rules-based standard setting.

This course also would be the ideal place for students to learn how to use the FASB's Codification Research System for examining accounting issues. The work that students do in this theory class would help to develop their critical reading and thinking skills, their communication skills, and their judgment in an accounting context.

Ideally, students would read challenging material and then build on that reading and the related class lectures and discussions by responding to thought-provoking essay questions and case studies. Some of the cases would involve recently issued corporate financial statements, with a mix of IFRS and U.S. GAAP presentations. Other cases should involve specific accounting issues with no obvious solutions so as to develop their tolerance for ambiguity. These cases would require that students use the FASB's Codification and IFRS in search of workable solutions. The students would have to propose a solution and then defend it.

Inevitably, instructors will need text materials in addition to the pronouncements embodied in the Codification. International accounting textbooks are doing some of what we have envisioned (see Godfrey et al., *Accounting Theory*, and Deegan and Unerman, *Financial Accounting Theory*). The KPMG Student Materials and the Deloitte Trueblood Accounting & Auditing Case Study Series (see http://www.deloitte.com/us/truebloodcases) are both excellent sources of cases. (The website provides access to the cases, but instructors must obtain permission from Deloitte & Touche to gain access to the solutions.) In the past, textbook publishers offered books consisting of interesting and challenging accounting cases, and we hope that supply will respond to a renewed demand.

Once students complete the theory course and the cycle review, they would then complete the required financial accounting and reporting courses. Preparation of financial statements would be a major focus of these courses. Instructors would design the courses in much the same way that Intermediate and Advanced Accounting courses are designed now, with the coverage of the components of the financial statements. Perhaps there could be two courses whose content varies over time, with priority given to topics that best illustrate the concepts learned in the first course. The focus of these courses should not be exclusively on procedures. A portion of the assignments could be case analysis and open-ended essay questions since the students will have encountered that type of material before.

We raised several issues about curriculum and staffing earlier in this paper. Certainly the reactions to those issues will vary across academic institutions and their missions. However, we believe the emphasis on concepts and critical thinking will reduce the need for more credits or courses. We also expect that each institution will appreciate their staffing needs and make adjustments that fit their circumstances.

CONCLUDING REMARKS

We hope that the SEC leaves the FASB in place and continues to require U.S. publicly-held corporations to base their financial statements on U.S. GAAP. Perhaps the SEC can give some of the multinationals, such as GE and IBM who seem to prefer IFRS, the option to use it for their reporting in this country. However, the Commission should hold them to the same standard as foreign corporations filing with the SEC and have them apply IFRS exactly as it is written by the IASB.

Instead of reacting to the possible adoption of IFRS by the SEC as a reason for accounting instructors to panic, they can view the IFRS "invasion" as an opportunity for healthy change in how accounting educators teach financial accounting for their majors. If we help students learn the basic concepts that underlie high-quality financial reporting, they should have no problem mastering whatever sets of rules they encounter. We must remember that it is our job to educate and not our job to train. We can leave the training to the CPA firms and other organizations that will employ our students after they graduate from our programs.

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