AMERICAN ACCOUNTING ASSOCIATION
5717 Bessie Drive • Sarasota, FL 34233-2399 • Phone: (941) 921-7747 • Fax (941) 923-4093
Email: Office@aaahq.org • http://AAAhq.org

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Financial Accounting and Reporting Section
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Financial Reporting Policy Committee

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Response to the SEC Release: ROADMAP FOR THE POTENTIAL USE OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS BY U.S. ISSUERS

Patrick E. Hopkins, Chair; Mark Bradshaw; Carolyn Callahan; Jack Ciesielski; Elizabeth Gordon (principal co-author); Mark Kohlbeck; Leslie Hodder; Robert Laux; Sarah McVay; Thomas Stober; Phillip Stocken; and Teri Lombardi Yohn (principal co-author).

INTRODUCTION

The Financial Reporting Policy Committee (the Committee) of the Financial Accounting and Reporting Section of the American Accounting Association is charged with responding to discussion memoranda and exposure drafts on financial accounting and reporting issues.[1] The Committee is pleased to respond to the SEC's proposed roadmap for the potential use of financial statements prepared in accordance with international financial reporting standards (IFRS) by U.S. issuers.[2] The comments in this letter reflect the views of the individuals on the Committee and not those of the American Accounting Association or the Financial Accounting and Reporting Section of the American Accounting Association.

Our commentary is organized as follows. First, we provide an overview of the Committee's conclusion. We then provide a discussion of the extent to which convergence of U.S. GAAP and IFRS is a desirable goal by reviewing the literature on the potential benefits of global adoption of international standards and the literature on the quality of financial reporting using IFRS. We then provide a discussion on the advantages and disadvantages of near term adoption of IFRS versus continued convergence to IFRS. We consider the differences between IFRS and U.S. GAAP, the

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[1] The Committee is independent of the Financial Accounting Standards Committee (FASC) of the American Accounting Association.

[2] International financial reporting standards have evolved over time. To mitigate confusion regarding the "version" of international standards examined in the studies, we employ the acronyms IAS, IFRS, or IAS/IFRS to refer to the period during which the International Accounting Standards Committee (IASC), the International Accounting Standards Board (IASB) or both organizations, respectively, promulgated international accounting rules. Some of the findings we discuss relate to older versions of IAS and might not apply to more recent IFRS.

arguments for continued dual standard setting by the IASB and FASB, the readiness of the U.S. education system with respect to IFRS, and the concerns of companies and users with respect to moving to IFRS. The final section of our commentary offers a summary and conclusions.

OVERVIEW OF COMMITTEE'S CONCLUSIONS

The SEC proposal requests responses to 66 separate questions. Instead of answering each of the questions separately, we provide a summary of academic research and insights related to the central issues underlying the roadmap, which we consider to be whether convergence of financial reporting with IFRS in the U.S. is a desirable goal and, if so, what the best strategy would be for converging U.S. GAAP with IFRS.

Based on a review of the literature, the Committee has concluded that a move to an international set of financial reporting standards is a desirable goal. The Committee has also concluded that continued convergence of U.S. GAAP with IFRS by joint relations between the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) is preferable to near term adoption of IFRS as a strategy for convergence. The Committee suggests that the two boards continue the convergence of standards, that the SEC re-evaluate the adoption of IFRS at set dates in the future, and that the adoption of IFRS occur when the differences between the two sets provide informationally equivalent financial statements. The Committee offers the following main points based on our review of extant academic literature:

- Convergence of IFRS and U.S. GAAP is in the best interest of U.S. companies in the long run if it provides greater comparability and yields equal or higher quality standards. Both IFRS and U.S. GAAP represent a high quality set of accounting standards in terms of mitigating information asymmetry and providing information important for valuation; however it is unclear whether IFRS provides equivalent financial reporting quality relative to U.S. GAAP.
- Material differences continue to exist between U.S. GAAP and IFRS both in terms of conceptual issues and in terms of the magnitude of differences in net income and stockholder equity. Adopting IFRS is, therefore, likely to create important obstacles for preparers and users of financial statements. Greater efforts are necessary with respect to convergence, so the joint standard-setting efforts should continue until the financial statements under both sets of standards are informationally equivalent.
- U.S. colleges and universities are not equipped to teach IFRS at the level necessary for near term adoption of the standards. Changes in the manner in which faculty teach accounting must occur before graduates will be equipped to prepare and interpret financial statements using IFRS.
- Convergence of IFRS and U.S. GAAP is currently occurring via the joint standard-setting activities of the FASB and the IASB. Near term adoption of

IFRS will create a monopoly on standard setting that may reduce the quality of the resulting standards. Competition and collaboration in standard setting may aid in improving the quality of the standards.

- The U.S. capital markets have experienced extreme volatility in recent years and companies have expended tremendous resources to deal with the requirements of the Sarbanes-Oxley Act. Stability and gradual change in financial reporting may be necessary to instill confidence in the market and cost-efficiency within companies.

CONVERGENCE OF U.S. GAAP AND IFRS

Convergence of U.S. GAAP and IFRS has costs and benefits. An important benefit of the convergence of accounting standards is the increased comparability of financial statements across jurisdictions. Ball (2005) suggests that comparability is one of at least three benefits to harmonized accounting standards.[3] The SEC identifies comparability of financial information to investors as a key benefit of moving the U.S. to IFRS. The SEC also suggests that comparability based on global industry financial reporting should be the criterion to determine whether a U.S. company is allowed to adopt IFRS early.

Academic research suggests that investors prefer to invest in companies that use familiar standards. El-Gazzar, Finn and Jacob (1999) examine the characteristics of firms that voluntarily adopt IAS. The authors suggest that firms engaged in international activities benefit from convergence and show that firms are more likely to voluntarily adopt IAS if they have more international interactions. The authors argue that "expanding firm activities into foreign markets increases the number of users of its financial statements and disclosures. Users in foreign (host) countries prefer financial statements and disclosures that are comparable to locally prepared statements in terms of accounting standards and scope of disclosure" (p. 329). This study suggests that convergence benefits companies involved in international operations. However, more importantly for the issues currently being considered by the SEC, the study also suggests that convergence may occur naturally through market forces and may not need to be forced through institutional regulation.

Bradshaw, Bushee and Miller (2004) examine the investment choices of U.S. institutional investors from 1989 through 1999. They examine whether investment preferences differ based on how closely the firm's accounting methods conform to U.S. GAAP. The authors find greater U.S. institutional ownership in firms whose accounting conforms more to U.S. GAAP and find an increase in U.S. institutional ownership around increases in the conformity of the accounting standards with U.S. GAAP.

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[3] He also argues that scale economies related to rule making and protection from managers choosing more favorable rules are two other benefits to harmonization.

Covrig, DeFond and Hung (2007) examine mutual fund ownership from 1999 to 2002 in foreign stocks before and after voluntary adoption of IAS and find that foreign mutual fund ownership increases after IAS adoption. The authors suggest that *voluntary* adoption of IAS reduces the tendency for investors to overinvest in domestic stocks and to underinvest in foreign stocks (French and Poterba 1991).

These studies could suggest that foreign investment decisions are related to the conformity of the accounting methods with domestic accounting standards. If one extends this to an international context, the evidence suggests that U.S. companies may benefit from convergence of U.S. GAAP with IFRS given that IFRS has been adopted by over 100 countries and may be the familiar standards for an increasing number of investors. Therefore, convergence of accounting standards with IFRS may increase foreign investment in U.S. companies.

The Committee emphasizes that these studies focus on U.S. institutional investment outside of U.S. capital markets. Accordingly, the converse effect of foreign investment in U.S. companies may not hold. In addition, both studies examine periods prior to the Norwalk Agreement, which formally recognized convergence as a goal of the IASB and FASB standard-setting activities. Finally, both studies examine voluntary adoption of IAS; therefore, companies that chose accounting methods closer to U.S. GAAP (or chose IAS) may have been of higher quality and may have attempted to signal their quality through the choice of standards. It is therefore not clear that the documented preference for IAS or methods in conformity with U.S. GAAP is because of a preference for familiar accounting standards or because of higher quality accounting standards.

Beneish, Miller and Yohn (2009) examine whether widespread mandatory adoption of IFRS in 2005 is associated with increased cross-border investment. The authors find increased foreign investment by adopting countries as well as increased foreign participation in adopting countries' debt markets (i.e., not for their equity markets). In addition, the authors find that the increased foreign investment and participation in the debt markets is more pronounced for countries with weak enforcement and investor rights prior to IFRS adoption. These results suggest little to no benefits of IFRS adoption to equity markets and that improved financial reporting, rather than comparability, appears to drive the increased foreign attraction to debt markets after IFRS adoption. These results suggest that IFRS adoption may provide negligible benefits to the U.S. in terms of attracting foreign investment.

QUALITY OF IFRS

The benefits of convergence would only be relevant, however, if the quality of the harmonized standards is not diminished relative to U.S. GAAP. Research has examined the quality of IFRS in different contexts. For example, Armstrong, Barth, Jagolinzer and Riedl (2009) examine the European stock market reaction to sixteen events associated with the adoption of IFRS in Europe, finding that investors in European firms perceived net benefits associated with IFRS adoption. More directly related to the possible U.S. adoption of IFRS is the large body of literature that has attempted to compare the quality of financial reporting under IAS/IFRS with the quality of financial reporting under domestic non-U.S. GAAPs and under U.S. GAAP.

Barth, Landsman and Lang (2008) find that firms voluntarily adopting IAS from 21 countries exhibit less earnings management, more timely loss recognition, and more value-relevant information than a matched sample of firms using non-U.S. domestic standards. We note that this study examines *voluntary adoption* of IFRS and examines the effects relative to the use of non-US domestic standards. Therefore, similar improvements in the quality of financial reporting likely will not generalize to the mandatory adoption of IFRS in the U.S.

Daske, Hail, Leuz and Verdi (2008) examines the effect of mandatory adoption of IFRS in non-U.S. markets and finds, consistent with IFRS yielding an improvement in accounting quality, that IFRS adoption results in increased liquidity in these markets. This suggests that IFRS is considered a higher quality set of standards as evidenced by lower information asymmetry and greater liquidity; however, the authors note that the market effects around mandatory adoption of IFRS are most pronounced for firms that had previously *voluntarily* adopted IFRS. Thus, it appears that the liquidity benefits predominantly accrue to firms that have self selected to use IFRS. These firms are likely to possess different characteristics from other firms and the liquidity benefits might be related to the specific characteristics rather than IFRS adoption itself. Daske et al. (2008, 6) also cautions that “several countries around the world have substantially revised their enforcement, auditing and governance regimes to support the introduction of IFRS reporting, therefore, it is likely that the results reflect the joint effects of these efforts and hence cannot solely, or even primarily, be attributed to the switch to IFRS.”

Horton, Serafeim and Serafeim (2008) also examine the effect of mandatory adoption of IFRS on the firms’ information environments. Similar to Daske et al. (2008), the authors test for a change in firms’ information environments around mandatory adoption of IFRS in European countries. However, Horton, et al. (2008) use analyst forecast accuracy, following, disagreement and volatility of revisions as proxies for the information environment. They find improvements in the environments and find that the improvements are more pronounced for firms that had already voluntarily adopted IFRS.

Christenson, Lee and Walker (2008) exploit the German setting in which there is voluntary as well as mandatory adoption of IFRS. They conclude, “consistent with prior literature, that voluntary adoption of IFRS is associated with decreased earnings management and more timely loss recognition. In stark contrast, we find no evidence of such accounting quality improvements for firms that are forced to adopt IFRS. The results suggest that adoption of IFRS does not necessarily lead to higher quality accounting when the preparers have no incentives to adopt” (p. 3). The results suggest that the adoption of IFRS itself may not increase accounting quality even when they are higher quality than the previous standards and that the improved information environments documented in previous studies may be caused by incentives and firm characteristics rather than due to the adoption of IFRS.

Prather-Kinsey, Jermakowicz and Vongphanith (2008) examine European firms that implemented IFRS in 2005, used domestic GAAP in 2004 and reported under IFRS in 2006; therefore, the study focuses on mandatory adopters of IFRS. The authors find higher value relevance and information content of financial statements after adoption of IFRS but only for companies in code law countries which had lower quality domestic accounting standards and less developed institutional infrastructures. The authors also find a lower cost of capital after adoption of IFRS for companies in both code law and common law countries. The results suggest that the adoption of IFRS did provide benefits especially to companies in code law countries; however, the authors caution that "the role of IFRS alone in improving the value relevance of accounting information is not clear. For example, implementing IFRS could be associated with more rigorous audits, reporting incentives or enforcement scrutiny" (p. 25).

The results of these studies suggest that IFRS reflects a high quality set of standards; however, it is not clear that mandatory adoption of IFRS alone leads to information environment benefits. It is also not clear whether improved liquidity and accounting quality even for voluntary adoption of IFRS will generalize to the U.S. given that the studies examine IFRS adoption relative to non-U.S. domestic standards.

Research has attempted to compare the quality of IFRS with U.S. GAAP. Leuz (2003) examines firms that traded in Germany's New Market in 1999 and 2000. Some firms used U.S. GAAP and others used IAS. Leuz (2003) finds no significant differences in information asymmetry as proxied by bid-ask spreads, share turnover, analyst forecast dispersion and initial public offering underpricing between U.S. GAAP and IAS. These results suggest that IAS is equivalent in quality relative to U.S. GAAP.

Bartov, Goldberg, and Kim (2005) compare the value relevance of U.S. GAAP and IAS in Germany's New Market. They also find no significant differences between U.S. GAAP and IAS, suggesting that they two sets of standards appear to be of similar quality in the German market.

In contrast, Daske (2006) examines the differences in the cost of equity capital for firms using IAS/IFRS and U.S. GAAP in the German Stock Exchange from 1993 through 2003. Daske (2006) finds some evidence that firms using IAS/IFRS have a higher cost of capital relative to firms using U.S. GAAP. Daske (2006) notes, however, that the cost of capital analysis might be confounded by the diversity of accounting standards that existed in the market.

Barth, Landsman, Lang and Williams (2006) compare the accounting quality of IAS and U.S. GAAP by investigating differences in earnings management, timeliness of loss recognition, and value relevance across the two sets of standards. The authors find that IAS firms exhibit lower accounting quality relative to U.S. GAAP. Barth et al. (2006) also compare IAS with U.S. GAAP reconciled from domestic GAAP reported by non-U.S. firms that cross list on the U.S. exchanges. For these firms, the authors find similar accounting quality. The authors conclude that "although IAS accounting amounts may not be of higher quality than those of U.S. GAAP applied comprehensively, they are of comparable quality to reconciled U.S. GAAP amounts reported by cross-listed firms" (p. 10).

Gordon, Jorgensen and Linthicum (2008) examine the Form 20-F reconciliations from IFRS to U.S. GAAP from 2004 through 2006. The authors find that U.S. GAAP and IFRS share many earnings attributes with two notable exceptions: U.S. GAAP exhibits higher cash persistence and value relevance. This study therefore also suggests that U.S. GAAP yields higher quality financial reporting outcomes than IFRS.

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. The results also suggest that the stock market effects of mandatory adoption of even a higher quality set of standards might be minimal. In general, research finds that accounting quality improves when IFRS is adopted; however, the improvements are greatest for companies that have incentives to provide higher quality earnings, voluntarily switch to IFRS, and in countries where earnings quality had been poor. Further, enforcement level varies across countries and this may affect the impact of IFRS on accounting quality. Given the high quality nature of U.S. GAAP, the question of whether the documented capital market benefits of adopting IFRS will extend to the U.S. is left as an open question. In particular, it is not clear that IFRS reflects a set of accounting standards that are of equivalent or greater quality relative to U.S. GAAP in the U.S. markets.

CURRENT DIFFERENCES BETWEEN IFRS AND U.S. GAAP

If we assume that there are significant net benefits to the U.S. in converging U.S. GAAP and IFRS, then the next question is how that convergence should occur. The SEC could mandate a near term adoption of IFRS by U.S. firms or it could continue to allow the convergence activities between the IASB and FASB in order to make U.S. GAAP similar to IFRS before adoption.

The advantage of a near term adoption is that the benefits of convergence such as comparability will be realized immediately. On the other hand, if there are significant differences between IFRS and U.S. GAAP when adoption of IFRS occurs, then adoption is likely to be disruptive to preparers and users of financial statements as well as to educators. We therefore review research on the current differences that exist between IFRS and U.S. GAAP.

Henry, Lin and Yang (2008) analyze the materiality of differences between U.S. GAAP and IFRS net income and shareholders' equity in the 20-F reconciliations from 2004 to 2006 for 75 European Union companies that are cross-listed in the United States. The authors find that the mean (median) difference between IFRS and U.S. GAAP net income is 3.07 (1.67) percent of IFRS equity, and the mean (median) difference between IFRS and U.S. GAAP equity is 13.53 (7.70) percent of IFRS equity. These differences are larger than the differences reported in earlier work on IAS versus U.S. GAAP reconciliations (Harris and Muller 1999), suggesting that even with the convergence efforts, there has been little progress with respect to the convergence of financial reporting outcomes to date. The authors find that the items occurring most frequently in the net income (equity) reconciliation relate to pension costs and investments (pension costs and goodwill). The authors note that the IASB and FASB have slated these items for convergence.

Plumlee and Plumlee (2008) examine a sample of 100 randomly selected IFRS to U.S. GAAP 20-F reconciliations in 2006 and identify the line items that reflect the largest and most frequent differences between IFRS and U.S. GAAP. The authors find that a vast majority of foreign private issuers report differences related to pensions/other post retirement benefits and goodwill/intangibles.

Dobier and Gunther (2008) also examine Form 20-F reconciliations to assess the materiality of differences between IFRS and U.S. GAAP in European companies. The authors find material and heterogeneous differences in income and shareholders equity between IFRS and U.S. GAAP. The authors conclude that the "results indicate a poor level of de-facto convergence achieved to date and an inconsistent application of accounting standards."

Research suggests that non-U.S. companies listing in the U.S. select standards similar to U.S. GAAP, when possible, to minimize reported reconciling items (Bradshaw and Miller 2008). Therefore, research also finding large differences in the 20-F reconciliation between IFRS and U.S. GAAP suggests the need for continued convergence. Importantly, this research also suggests that differences between IFRS and U.S. GAAP could be larger for the companies that do not have the incentives, like reconciliation, to minimize such differences.

Until greater convergence is achieved, adopting IFRS is likely to create important obstacles for preparers and users of financial statements. The results suggest that greater efforts are necessary with respect to convergence and that the joint standard-setting efforts should continue until the financial statements under both sets of standards are informationally equivalent.

IMPLICATIONS FOR EDUCATORS AND PREPARERS

The decision as to whether or not the U.S. should require registrants to report under IFRS and the timing of such a requirement should consider the implications for educators and accounting professionals. While there has not been academic archival research on this topic, several surveys and questionnaires have provided important insights that might be useful to consider.

Educators

KPMG and the American Accounting Association (KPMG-AAA 2008) executed a survey of professors to obtain faculty thoughts on the issue of IFRS education in universities. As for the current situation regarding coverage of IFRS in curricula, the survey found that 62 percent of the professors said that they have not taken any significant steps to incorporate IFRS into the curricula and that the first class of graduating seniors likely to have a substantial amount of IFRS education will be the class of 2011. The study also found that "42 percent of the professors felt that textbooks would not be ready until the 2010-2011 academic year." The results of this survey suggest that university faculty believe that it will take many years for graduating seniors to be sufficiently knowledgeable of IFRS. Currently, relatively few accounting programs and courses incorporate IFRS, and educators lack knowledge of IFRS and lack the resources to gain the needed expertise.

Barth (2008) suggests that educators should change the way in which they teach in order to prepare for IFRS. In particular, accounting faculty should focus more on the conceptual framework in teaching. She notes that teaching IFRS is not a daunting task given that, "at the conceptual level, the differences between IFRS and U.S. GAAP are few" (Barth 2008, 1164). Barth (2008) suggests that, in teaching IFRS, educators should consider incorporating the conceptual framework, moving from rules-based to concepts- and principles-based teaching, emphasizing foundational theories upon which financial reporting is based, offering more valuation theory, teaching how to audit estimates of asset and liability values, and providing opportunities for students to exercise judgment. This suggests that a fundamental shift in education should occur before students are properly trained for the move to IFRS. This is likely to be part of a process of change rather than an abrupt shift in education.

Preparers

Significant discussion and concern has been expressed about the application of principles-based standards and their outcomes as the U.S. contemplates a move from U.S. GAAP (considered a rules-based set of accounting standards) to IFRS (considered a principles-based set of accounting standards). Agoglia, Doupnik and Tsakumis (2009) examine the effect of different accounting standard regimes on reporting decisions in the context of lease accounting. They conduct an experiment in which U.S. professional financial statement preparers make a lease classification decision when they have an incentive to report aggressively. They find that preparers are less likely to report aggressively under a less precise (more principles-based) standard than under a more precise (more rules-based) standard. They also find significantly less variability among preparers' financial reporting decisions when a less precise standard is in place suggesting that the application of more principles-based standards need not result in less inter-firm comparability than more precise standards.

Other studies have surveyed accounting professionals in the European Union to gain insights into their experiences of IFRS adoption. Jermakowicz and Gornik-

Tomaszewski (2006) administer a questionnaire to EU companies in 2004. The respondents were representatives from companies that had previously adopted IFRS or companies that were in the process of adopting IFRS. They find that the adoption process is costly, complex, and burdensome. They also find that "the complexity of IFRS as well as the lack of implementation guidance and uniform interpretation are key challenges" (p. 173). The companies also responded that they expect increased volatility in earnings and do not expect to lower their cost of capital by implementing IFRS. Finally, the authors find that the majority of companies would not adopt IFRS if not required by the EU Regulation.

Larson and Street (2004) analyze the results of a global convergence survey conducted (in 2002) by the six largest accounting firms. The large majority (56 of 59) of the countries had either already adopted IFRS or were planning to adopt IFRS in the future. The survey identified "the complicated nature of particular IFRS (including financial instruments) and the tax-orientation of many national accounting systems" (p.89) to be the biggest impediments to convergence to IFRS. Approximately one-third of the countries cited insufficient guidance on first-time application of IFRS as an important impediment to adoption.

U.S. companies have also been expending tremendous resources for financial reporting after the enactment of the Sarbanes-Oxley Act of 2002. A survey of 274 public companies by Financial Executives International (in 2007) suggested that the average company spent \$2.9 million in 2006, \$3.8 million in 2005, and \$4.5 million in 2004 on Sarbanes Oxley Act compliance. In addition, 85 percent of the survey respondents said that the costs of Sarbanes Oxley compliance outweighed the benefits. To regulate that companies change their accounting standards from U.S. GAAP to IFRS in the near term is likely to require significantly more expenditures on accounting systems.

These results suggest that educators and accounting professionals might not be well prepared for a near term adoption of IFRS. If the Boards continue with convergence activities, then universities, companies and financial statement users will have the necessary time to prepare for such a transition.

STANDARD SETTING UNTIL CONVERGENCE

Near-term transition to IFRS could, in real terms, lead to divergence in the actual standards applied in the U.S. and in other IFRS-adopting jurisdictions. Under U.S. securities laws, the SEC has the responsibility to develop accounting standards used by public companies. The FASB currently is the private sector organization charged with promulgating accounting standards necessary to fulfill the SEC's mandate. As part of this mandate, the SEC has the authority to modify or overturn any rule established by the FASB; although, the SEC has rarely exercised that authority. One important reason for the SEC's reluctance to exercise its "veto power" is the fact that the SEC directly and indirectly influences the FASB's rule-making activities. For example, direct influence by the SEC is obtained through participation in meetings of the Emerging Issues Task Force (i.e., a representative from the SEC's Office of Chief Accountant regularly attends EITF meetings and has privilege of the floor). By truncating convergence and adopting IFRS, the SEC would be significantly reducing its influence over the accounting rule-making body for U.S. registrants. As a result, this will lead to a higher likelihood of standards setting "carve outs" enacted by the SEC, thereby diminishing the true convergence achieved by adopting IFRS.

An additional benefit of continuing with convergence efforts before adopting IFRS is the availability and input from both the IASB and FASB in the convergence efforts. When IFRS is adopted in the U.S., then the IASB will have monopoly power in standard setting. Given the material differences both conceptually and in magnitude that remain between IFRS and U.S. GAAP, it would be useful to maintain FASB's involvement. Sunder (2002) argues for competition among accounting standards and that firms should be allowed to choose the standards to apply. He suggests that investors will prefer securities of firms that choose to adopt better reporting rules; therefore, managers will choose to adopt the standards that investors favor. Managers' observed preference for a particular set of standards enhances the reputation and support afforded the "winning" standard setting organization, and this in turn impacts the standard-setting bodies' choices among standards.

While Sunder (2002) suggests that firms should have the choice of accounting standards, Huddart, Hughes, and Brunnermeier (1999) suggest a model in which stock exchanges choose the required accounting standards, and managers choose the exchange on which to list their shares. Therefore, Huddart et al. (1999) allow for competition among accounting standards across exchanges. The study suggests that liquidity traders are attracted to the stock exchange that provides the least informational advantage to insiders. This results in competition with respect to the quality of the accounting standards across exchanges.

Pagano, Röell, and Zechner (2002) find evidence consistent with this notion. In particular, the authors find that European exchanges with the highest trading costs, lowest accounting standards, and worst shareholder protection were less able to attract and retaining foreign listings.

While competition for standards among investors and exchanges is not proposed, we note that these studies are relevant for the debate in that they do suggest that competition in standard setting might be beneficial to investors. This suggests that perhaps it would be wise for FASB to continue to exist and engage in convergence efforts until the standards are sufficiently converged such that the financial statements resulting from the standards are informationally equivalent. The competition as well as collaboration is likely to improve the quality of the converged accounting standards.

While maintaining two boards until convergence is achieved might be a good strategy, academics have provided some insights into potential costs of convergence to IFRS rather than adoption of IFRS. Barth (2008) notes that the need for each Board to maintain its existing literature, different political pressures faced by each board, difference priorities, and different levels of detailed guidance can create differences in standards even when convergence is the goal. This suggests that even when a single set of standards is a goal, convergence rather than adoption creates some obstacles.

Schipper (2005) notes that as companies and countries adopt IFRS, there will be an increased demand for implementation guidance. She notes that an implication of convergence rather than adoption is the need for continued coordination between IASB and FASB with respect to implementation guidance. Schipper (2005, 104) notes that "even if the IASB and FASB are able to issue identical standards, financial reports will not be comparable and financial reporting will not be converged, if implementation guidance for applying those standards is not the same in all jurisdictions that use IFRS and US GAAP." Schipper notes that this coordination could be costly, could divert attention and resources from the convergence projects, and could erode the notion that IFRS is a principles-based set of standards.

SUMMARY AND CONCLUSIONS

Our review of the literature suggests a move to an international set of financial reporting standards is a desirable goal. It also suggests that continued convergence of U.S. GAAP with IFRS by joint relations between the IASB and FASB is preferable to a near term adoption of IFRS as a strategy for converging to IFRS.

The academic literature suggests that convergence of IFRS and U.S. GAAP is in the best interest of U.S. companies in the long run if it provides greater comparability, yields equal or high quality standards, and attracts investment from a wider population of investors. The academic evidence suggests that both IFRS and U.S. GAAP represent a high quality set of accounting standards in terms of mitigating information asymmetry and providing information important for valuation. However, material reconciling items continue to exist between U.S. GAAP and IFRS. Adopting IFRS when material differences exist at both a conceptual and magnitude level could pose great costs and be detrimental to investors. U.S. colleges and universities do not appear to be equipped to teach IFRS at the level necessary for near term adoption of the standards. Companies have been inundated with a difficult economy and costly accounting regulation and U.S. capital market participants have been faced with extreme volatility in the capital markets. Near term adoption of IFRS could exacerbate this volatility and costliness. While material differences between IFRS and U.S. GAAP exist, convergence of the two sets of standards is currently occurring via the joint standard-setting activities of the FASB and the IASB. Continuing the joint efforts for convergence of the standards will allow for competition and greater insights into decision making and will allow the U.S. to influence important standard setting decisions. Competition and collaboration in standard setting will be helpful in improving the quality of the standards that result.

The committee suggests that the two boards continue the convergence of standards, that the SEC re-evaluate the adoption of IFRS at set dates in the future, and that the adoption of IFRS occur when the two sets of standards yield financial statements that are informationally equivalent.

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