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IFRS in the U.S. Business Environment - Vision for the Future

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Abstract The study attempts to shed light on a topic that has raised a lot of interest among the international accounting community, namely the possibility of adopting international accounting standards in the American business environment, coinciding with the international convergence project between FASB & IASB, which began in 2002 and still to this day has not taken its place. The study found that the goal of reaching one set of accounting standards through the convergence project is not a practical or achievable goal for the foreseeable future, and the USA does not intend to adopt international accounting standards but is trying to press its industry path in line with its business environment rather than directly follows.

Keywords: *IAS/IFRS, US-GAAP, FASB, IASB, international convergence project*

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1. Introduction

The International Accounting Standards Board (IASB) has achieved worldwide acceptance of its accounting standards, that is, more than 40 years in the making. However, it is very important that the United States has the largest capital markets in the world but remains reluctant to incorporate international accounting standards into its financial reports, although it has been recognized on all continents over the past years [1].

Several times on both sides of the Atlantic (FASB & IASB) have stated that the goal of the accounting standards is to achieve one set of internationally accepted standards, so it is really strange that after 15 years the memorandum of understanding that was held in Norwalk, and hard work by the best accounting minds in the world, but there is still some indication of when the convergence of the two sets of standards will take place ?, which indicates that the project has not been as easy as expected at its inception and remains the goal of reaching one set of high quality standards. Extremely difficult at the moment, however, there is no shortage of statements The public by the Commission and the SEC staff expressing their opinion that they should develop a single set of international accounting standards be accepted by everyone, it has been confirmed through the Strategic Plan for fiscal years 2014-2018 [3].

In light of the above, the problem of the study is crystallized as follows: «What is the future of IFRS in the U.S. business environment under the international convergence project between FASB & IASB?".

In order to cover the various aspects of the subject, the study was divided into the following axes:

International convergence of accounting standards (significance and importance).

FASB's motivations towards a joint venture to converge with the IASB

Reading in the reality of the convergence project between FASB & IASB.

The United States of America's refusal to adopt international standards.

2. The international convergence of accounting standards

2.1 Concept and Importance

Convergence of international accounting standards is not a new concept; initially fell under the heading of harmonization, or internationalization of accounting standards. Today those activities are referred to as convergence Robert H.Herz, and al (2005) [2]. And it has become a hot topic in the international accounting field. The convergence is an irreversible developing trend of accounting internationalization development, as a world-wide accepted business language, should naturally move tolards internationalization, for more details see Boka Moussa (2010) [5].

Harmonized standards are compatible, that is, they do not contain conflicts. But the convergence of international and national accounting standards involves the gradual elimination of differences through the cooperative efforts of the IASB, national standard setters, and other groups seeking best solutions to accounting and reporting issues. Thus, the notions behind harmonization and convergence are closely aligned. However, harmonization was generally taken to mean the elimination of differences between existing accounting standards, while convergence might also involve coming up with a new accounting treatment not in any current standard. Convergence is now the term most commonly used, and harmonization is used much less [4]. It is important to note that neither process necessarily implies replacing national standards with international ones national and international accounting standards can coexist.

Accounting convergence includes the convergence of

Accounting standards (which deal with measurement and disclosure), Frederick D.S. Choi and Gary K. Meek (2010).: Disclosures made by publicly traded companies in connection with securities offerings and stock exchange listings, and Auditing standards.

2.2. The Necessity of International Convergence of Accounting Standards

The global trend towards economic globalization, international trade and investment, multinational corporations and growing capital markets has become increasingly evident, mergers have become increasingly frequent and intensified, and transboundary capital flows have increased, making international convergence of accounting standards is essential, and the most important justification for convergence can be summarized in the following points: Boka Moussa (2010) [11]

The trend of economic globalization required international convergence of accounting standards requirements International organizations to promote international convergence of accounting standards

The rapid development of multinational companies required for accounting standards International investment activities to promote international convergence of accounting standards.

2.3. The Importance of International Convergence of Accounting Standards

Proponents of international convergence claim that it has many advantages. Donald T. Nicolaisen, former chief accountant of the U.S. Securities and Exchange Commission, said the following in September 2004:

"At a conceptual level, supporting convergence is easy. An accounting treatment that transparently reflects the economics of a transaction to readers of financial statements in the U.K., will also do so for readers in France, Japan, the U.S. or any other country. Similarly, the auditing requirements and procedures that are the most effective are likely to be the same in the U.S., Canada, China, or Germany. Disclosures relevant to investors in Italy, Greece or the Middle East, are likely to be just as useful to investors in the U.S. and elsewhere. Having high-quality standards for accounting, auditing, and disclosure benefits investors and reduces the cost of accessing the capital markets around the world. In short, convergence is good business and good for investors" D. T. Nicolaisen, "Remarks Before the IASB Meeting with World Standard-Setters" (September 28, 2004), [7]

According to this line, adopting one set of high quality accounting standards can reduce costs for financial reporting users resulting from differences and differences in accounting practices that may have implications for profits and equity. In addition, the international convergence of accounting standards provides time and the effort we may need to decode the use of accounting rules for each country, the importance of international convergence of accounting standards can be summarized in the following points: Frederick D. S. Choi and Gary K. Meek (2010). [6]

High-quality financial reporting standards that are used consistently around the world improve the efficiency with which capital is allocated. The cost of capital will be reduced.

Investors can make better investment decisions. Portfolios are more diverse and financial risk is reduced. There is more transparency and comparability between competitors in the global markets

Companies can improve their strategic decision-making in the merger and acquisition area

Accounting knowledge and skills can be transferred seamlessly around the world

The best ideas arising from national standard-setting activities can be leveraged in developing global standards of the highest quality [10].

To summarize, most arguments for accounting convergence relate in one way or another to increasing the operational and allocational efficiency of capital markets.

3. FASB's Motivations towards a Joint Venture to Converge with the IASB

The beginning of this century saw the collapse of some giant companies in the United States of America, foremost among them Enron, which was one of the largest energy companies, which used a high degree of complexity and development of what is known as the term "special purpose entities" to reach the market header Money and risk aversion, but its failure caused considerable financial losses and lay off a large number of workers. Enron's case was one of a series of accounting failures and audit failures in the United States, including Health South, WorldCom and Tyco, where failures Returns to a set of events T-critics attributed to the change from the productive industrial economy to a service economy in the United States, and what led to it is to increase consulting services by public accounting firms.

As a response to these events, which began to reduce public confidence in the US financial reporting system and business, the Sarbanes-Oxley Act was passed in 2002 by the US Congress to reform public accounting firms and protect investors, establishing a general oversight board of public accounting firms, It has the responsibility to set auditing standards and to review the practices and procedures used by public accounting firms in their performance of audits and to ensure compliance with the rules of this law [9].

Thus, the joint project of rapprochement between the two most influential accounting bodies in the world to develop accounting standards that would integrate the best of them is the most logical step after Sarbanes-Oxley. According to Article 108 of this Act, SEC employees are required to conduct a study on the adoption of the

US Financial Reporting System Based on principles (Smanster, 2006, P 09).

Following the first initiative towards convergence by the European Union, as well as the wide convergence of international accounting standards by many countries, the pressure on FASB to work with IASB for the preparation of convergent accounting standards has increased. FASB realized that by isolating its standards, Risk by not joining the rest of the major economic powers in rapprochement with international standards, but FASB did not agree to replace its accounting standards with international standards, but it was agreed to work jointly to adopt the highest standards among them and develop new standards in case of breach According to FASB, the convergence of its accounting standards is "an opportunity to achieve three benefits at once by improving accounting reporting in the United States, simplifying and developing US standards and benefiting from international convergence for participants in the US market" Mariya Smanster (2006). [8].

4. Reading in the Reality of the Convergence Project between FASB & IASB

After the FASB was brought to the convergence track following the Norwalk Agreement in Connecticut on September 18, 2002, it issued a memorandum of understanding in which the two councils agreed to develop consistent and high-quality accounting standards that could be used at the local and cross-border levels. (IASB, 2006), following which both chambers issued a series of short and long-term projects aimed at eliminating the differences between the two sets of standards, and agreed that if one of the two or two, whether international or American, is clearly preferable. The other side must adopt this standard. In the case of the standards of both chambers, improvement is needed.

This agreement has been updated several times (2006 and 2008), but the goal has always been to bring the two sets of standards closer together. This convergence is in principle rather than in the text. The joint project between the two councils has been repeatedly supported by many international groups such as the (G-20) as an essential step towards a single set of high quality international accounting standards. A very significant step was taken in November 2007 towards the use of IFRS in the United States when the SEC canceled the requirement to adjust the financial statements for foreign companies Which use international standards, the question remains "Where are we today after 15 years of joint work between FASB & IASB for convergence?".

4.1. Convergence Achievements

It can be said that some convergence issues have been successfully completed, and other topics have been completed with partial success in progress towards convergent standards, but some differences remain, and some projects have either stalled or led to the establishment of different criteria because ultimately the two councils have not reached In addition to the existence of other topics that have been postponed in order to focus more on the subjects that have been classified as high priority, and which the two Councils are still working on to this day Paul Pacter (2013). Some of the important achievements of the two Boards can be presented as follows: Paul Pacter (2013).

The two councils have completed an important project regarding the accounting treatment of business combinations where the result is IFRS 3.

- Progress in accounting for goodwill, where IASB replaced IAS 22 with IAS 36, which does not allow for the extinguishment of goodwill.
- Significant progress in accounting for discontinued operations, where it was agreed that the US standard is the best, IASB replaced IAS 35 with IFRS 5 "Non-current assets held for sale and discontinued operations".
- For accounting changes, FASB compensated APB 20, which requires a cumulative effect of change in accounting principle to be taken into account in the period in which the change occurred, and issued a new Standard N°154 consistent with IAS 8 "Accounting Policies, Changes In accounting estimates and errors.
- Progress made in the first phase of the objectives and qualitative characteristics of the joint work on the draft conceptual framework.
- The two councils have completed an important project regarding the accounting treatment of leases where the result is IFRS 16.
- However, the joint project schedule witnessed a significant delay from the time it was originally set, with 2011 initially set as the deadline for convergence in the major projects but the targets were not reached to reduce the target date to 2012 and still to this day The question remains whether the goal of reaching one set of criteria will be realized because of the many challenges and difficulties that remain.

4.2. Challenges of Convergence

The nature of US-GAAP based on rules vs. the nature of IFRS based on principles is the fundamental difference between the two sets of standards. Generally accepted accounting principles are more restrictive and binding in financial reporting and disclosure requirements than international accounting standards, and the rule-based approach has often been criticized as a factor in the lack of quality in financial reporting because companies are more focused on bending and spacing using The rules are in their favor rather than just reporting what has happened, since increasing the details of the guidance is accompanied by an increased opportunity to find gaps in the guidance.

In addition to this fundamental difference between the two sets of standards, there is an increase in the use of the fair value of reporting financial instruments, tangible assets and intangible assets required under the International Accounting Standards (IAS), which inject more solvencies into the figures in the financial reports. The ultimate objective of reporting in GAAP is to enable investors and creditors to predict the timing, quantity and probability of future cash flows from historical events and transactions in the financial statements. Many analysts believe that fair value figures are the most appropriate for this purpose because they are more relevant to the economic substance of reported events. Douglas Hillman, Patrick. H.Heaston, James.L.Dodd (2012).

- While projects prioritized as recognition of revenues, leases and financial instruments have been or will be dealt with by both chambers while respecting differences, there are still many challenges where US-GAAP and IFRS (Fogatry, 2012) differ. Challenges for the common convergence project in the following key points: Idem, P 06-07.
- Conceptual framework - Conceptual Framework
- LIFO method for inventory assessment.
- Long-Term Assets
- Language of extended business reports – XBRL
- Financial Statement Presentation.

4.3. Convergence Difficulties

There are still major obstacles that need to be overcome with respect to the Joint International Convergence Project, the most important of which can be summarized below Marc Fogatry (2012): [12]

Time to convert existing records by executives and tax managers.

Expected effects of corporate tax

Impact on standardized examinations of US Certified Public

Accountants Sufficient training for US investors as well as audit offices.

In addition, the idea of shifting from a rule-based system to a principled system is very difficult, and it is not an easy process in the near term. For example, in US GAAP, there are more than 100 references on the subject of recognition of revenue, while the system based on the principles there is a central principle on the concepts of revenue recognition instead of 100 references, and it is very difficult to collect all these references and the convergence with the principle of one on the recognition of revenue.

5. Barriers to Adoption of IFRS in the U.S. Business Environment

The issue of the full adoption of international accounting standards by the United States of America, which is used in about 150 countries around the world, has often been raised, but the answer is still not final, even after the SEC released a plan of action to consider the incorporation of international standards into "Which was expected to eliminate some of the continuing uncertainty about the US commitment to international standards, but no clear recommendation has been made so far by the SEC. The following are the three main factors that seem to prevent accounting standards International to become the basis for financial reporting in the United States of America as follows Alex Bogopolsky (2015) :

5.1. Litigious Business Environment in the US

Firstly, the US has a highly litigious business environment where, if something goes wrong, accountants and auditors are often blamed before anybody else (and then sued, alone or along with the reporting company's management) for investor or creditor problems that are even tangentially related to reporting (be it truly an accountant's fault, management's fraudulent reporting practices, or anything else).

In an environment of "high professional liability," it is understandable and even justifiable that accountants in the US demand a highly elaborate set of very specific rules rather than "general principles" that "merely" declare neutrality and faithful representation, leaving a lot to preparers' judgment.

5.2. FASB's Own Priorities

Second, the FASB continues to work full swing on many "non-convergence" technical issues on its own (that is, without joint projects or consultations with the IASB), and frequently issues new technical guidance - almost on a weekly basis - that sometimes diverges from IFRS. The list of recently completed projects on the FASB website (for example, in July and August of 2015) shows that almost all of them address relatively narrow, specific issues without corresponding changes being introduced by the IASB. Thus, among the latest US GAAP standards are the following, none of which has a corresponding IFRS equivalent:

Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets;

Employee Benefits Plan Simplifications;

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent);

Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions.

New (however small) technical differences, along with the "old" ones, and those not eliminated in the course of past convergence projects (such as the goodwill calculation options, for example), keep building and expanding a body of diverging technical guidance, which clearly does not facilitate the process of convergence or even harmonization of US GAAP and IFRS from a pure technical standpoint.

According to this line, the latest statistics reported that there is a total of ten to fifteen accounting standards that have been agreed upon, leaving approximately 200-300 US standard ASC in which there are several differences with international accounting standards, John G.Herndon (2015).

5.3. Politics

The third and possibly main reason for the lack of convergence progress lies in the political, and not technical, accounting area. It appears that the US is reluctant to give up the GAAP standard-setting authority over domestic issuers to a foreign, even truly international, body located in London (with a second headquarters in Tokyo). Declaring (and rightfully so) that their main goal is to protect US investors' interests, the SEC notes that IFRS lacks consistent application, allows too much leeway with judgment, and is underdeveloped in many specific areas, for which the US GAAP has detailed and accepted guidance and established practice (especially, in terms of industry accounting and reporting, and many specific transactions, for example, the most recent August 2015 US GAAP guidance on the presentation of costs related to revolving lines of credit).

So, if the SEC truly believes that a single set of globally recognized reporting standards is needed and that it would benefit US investors—even in the somewhat distant future—it should develop a definitive timeline for working toward that goal. Otherwise, the significant amount of work done over the years by many accounting professionals around the globe in the name of IFRS/US GAAP convergence may eventually dissipate, yielding to the fears (however justified they may be) of the "underdevelopment," "inconsistent application," and "lack of enforcement" of IFRS.

6. Conclusion

In light of the above, we will not disagree with reason or objectivity if we say that it is difficult to know whether FASB & IASB will achieve the goal of reaching one set of accounting standards through their convergence project. In fact, despite the common themes that have been dealt with, whether completed or nearing completion, the objectives of the convergence project have not yet been achieved. In addition, there are many indications that the United States does not intend to adopt international accounting standards in its business environment, But Is trying to press the path of the industry of international accounting standards in line with their business environment, which leads us to say that the goal of achieving one set of accounting standards is a goal is not practical or achievable in the foreseeable future.

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