

The Potential Adoption of IFRS for U.S. Issuers: A Textual Analysis of Responses to the Proposal

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ABSTRACT

This paper uses textual analysis to analyse the comments received by the U.S. SEC on the proposal to allow U.S. listed companies to prepare financial statements following International Financial Reporting Standards (IFRS). The paper contributes to the understanding of the overall desirability of international accounting convergence as well as the politics involved in attempting to reach consensus on such decisions. Most respondents supported the proposal. Respondents outlined the advantages of adopting IFRS as enhanced comparability, simplification, cost savings, extensive information sets, its capacity to improve the standard setting process, and its potential to serve U.S. interests. On the other hand, a minority of respondents were not supportive of the proposal. There was criticism of the lack of independence, enforcement mechanisms and resource availability of the IASB; the deleterious effect on U.S. interests; the questionable quality of the IFRS; and the perceived myths of convergence. Following the review of such comments, the paper outlines the implications of such a potential adoption of IFRS in U.S. to the Asian region as the pressure to extend IFRS to non-listed companies mounts. The paper also argues that Asian countries need to lobby for higher representation on the IASB and consider local customs, law and context while adopting IFRS, as such factors have been stressed upon by U.S. respondents to the SEC's proposal.

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1. Introduction

The last 10 years have been extremely successful for the International Accounting Standards Board (IASB) in meeting its objective of “bringing about convergence of national accounting standards” (IFRS Foundation, 2011). The IASB “has become more of a force” (Zeff 2007, p. 301) and “more than 100 countries now require or permit the use of International Financial Reporting Standards (IFRS) or are converging with the IASB standards” (IASC Foundation, 2010). This result is far from being confined to developing nations with no significant accounting standard setting experience. IFRS have been used by listed firms in the European Union (EU) for consolidated financial statements since 2005; used by Australian firms since 2005; used by New Zealand firms since 2007; and will be used by Canadian firms from 2011. Chinese and Japanese practices are actively being converged with IFRS (see for example, Deloitte Global Services Limited, 2011; IASC Foundation, 2011). Despite these significant achievements, however, as acknowledged by the IASB:

... any effort to develop a set of international accounting standards without U.S. participation and acceptance would be incomplete and fail to achieve the full benefits that a common global reporting language could offer. U.S. capital markets are the deepest and most liquid, accounting for 46% of the world’s market capitalization in 2003 (Tweedie & Seidenstein 2005, p. 594).

Whilst the United States of America (U.S.) has been “more cautious in converging with IFRS” (Irvine 2008, p. 131), there have been some significant developments hinting towards a possible future adoption of IFRS for U.S. firms. These developments culminated in the U.S. Securities and Exchange Commission’s (SEC) 2007 concept release requesting comments on the proposal to allow U.S. issuers to prepare financial statements in accordance with IFRS (SEC, 2007). It is expected that these comments will form the basis of the SEC’s decision to allow or not allow U.S. listed companies to prepare their financial statements following IFRS.

The aim of this study is to conduct an in-depth analysis of comments submitted to the SEC in regard to this concept release, extending an initial review of comments conducted by (Zeff, 2008). Following this aim, the research will have the following objectives:

1. To analyse the arguments raised by respondents in favour and against the concept release to allow U.S. companies to prepare their financial statements in accordance with IFRS;

2. To identify the nature of stakeholders contributing to this debate of both national and international significance;
3. To evaluate the likelihood of a potential use of IFRS by U.S. firms in the short-term; and
4. To outline the implications of U.S. adoption/non-adoption of IFRS to the Asian region.

The textual analysis of comments received on the concept release reveals mixed results. On the one hand, there was considerable support for the position that IFRS adoption would improve the international comparability of U.S. financial statements and could provide cost savings for multinational firms. On the other hand, numerous respondents questioned the independence of the IFRS, critiqued the IASB's enforcement mechanisms and available resources, as well as the questionable quality of some IFRS.

These results contribute to the understanding of the overall desirability of achieving international accounting convergence as well as illustrating the politics involved in reaching an international consensus on accounting matters. These results are of relevance to both U.S. and non-U.S. parties. U.S. and IASB convergence – like, for example, EU and IASB as well as AASB and IASB convergence before it – “is a two way street” (Tweedie, 2006). It will most likely involve significant changes from both parties. As such, it will impact all users of IFRS (Zeff, 2008).

The remainder of the paper is organised as follows. Section 2 provides a review of relevant international accounting convergence literature, the background to the SEC proposal to adopt IFRS for U.S. firms, as well as the potential impacts of IFRS adoption on the US. Section 3 describes the textual analysis method used in the analysis of responses to the SEC proposal. Section 4 outlines the results of this analysis. Section 5 outlines the implications of U.S. adoption/non-adoption of IFRS to the Asian region. Section 6 draws the paper to a close and outlines the contributions of this study.

2. Background To The Potential Use Of IFRS By U.S. Firms

2.1 Accounting Convergence

Spurred by the accelerated trend of globalisation in recent decades, there has been a growing push to eliminate international diversity

in accounting standards. Calls to eliminate international diversity in accounting systems, historically, ranged from calls to achieve either harmonisation or standardisation of standards. Harmonisation implies a “clustering of companies around one or a few... available limits” (Tay & Parker 1990, p. 73). Standardisation, on the other hand, refers to the “imposition of a rigid and narrow... even... a single standard or rule to all situations” (Choi, Frost, & Meek 2002, p. 291). Throughout the 2000s, some observed a movement away from the use of the harmonisation and standardisation terminology towards the more encompassing term convergence (see for example, Peng et al. 2008; Zeff, 2007). Nobes and Zeff (2008, p. 281) described convergence as the “process whereby domestic standards and IFRS are gradually brought into line”. The principal mechanism used by the profession to achieve internal convergence has been to work with the IASB to develop a body of international accounting standards – now collectively referred to as IFRS – and seek convergence of these standards with those of the various domestic standard setters.

While developing nations have historically been strong supporters of the IASB (see for example, Agars, 1996; Chamisa, 2000), developed nations have been typically unwilling to accept changes to their domestic accounting standards. Jacob and Madu (2004, p. 358, cited in Irvine, 2008) observed that up until the 1990’s, the IASB had no “meaningful relationships” with standards setters from any major industrial economies. Some attributed the initial unwillingness of developed nations to accept IFRS to nationalism (see for example, Callao, 2007; Stamp, 1972; Wolk & Heaston, 1992). As Doost and Ligon (1986, p. 41) asserted, “everyone believes that [their] system is the best and is unwilling to change”.

In recent years, however, driven by the accelerated global business trends and the endorsement of the IASB’s core standards by the International Organisation of Securities Commissions (IOSCO), developed nations have been more willing to consider IFRS adoption (Baker & Barbu, 2007; Daske & Gerbhardt, 2006; Lehman, 2005; Wu & Zhang, 2009). The IASB “has become more of a force” (Zeff, 2007, p. 301) and “more than 100 countries now require or permit the use of International Financial Reporting Standards (IFRS) or are converging with the IASB standards” (IASC Foundation, 2010).

2.2 U.S. Convergence

Given its standard-setting resources⁴, experience and extensive body of accounting guidelines, some have questioned whether it should in fact be the responsibility of the U.S. Financial Accounting Standards Board (FASB) to develop international accounting standards (see for example, Macek, 2003). Overall though, international support for the FASB or any other domestic standard-setter as the body responsible for setting international standards has been minimal (Haswell & McKinnon, 2003). Domestic standard setters are generally perceived as being less flexible and neutral than the IASB (see for example, Rodrigues & Craig, 2007; Saudagaran & Diga, 1997; Whittington, 2005) and the IASB has taken the “leading role” (Barlev, 2007, p. 494; Tower, Hancock, & Taplin, 1999, p. 294).

Within the U.S., there has been much debate as to whether the SEC should either:

- (1) Eliminate the need for foreign listed companies to prepare form 20-F reconciliations of financial statements to U.S. GAAP and accept IFRS compliant statements⁵; and/or
- (2) Allow U.S. firms to prepare accounts in accordance with IFRS.

Those in favour of the acceptance of foreign firms’ financial statements prepared in compliance with IFRS have argued that it would encourage more foreign firms to list in the U.S. In contrast, those opposed to this move have argued that it would create a two tiered reporting system to the disadvantage of U.S. companies and could reduce the reliability of financial information provided to U.S. investors (see for example, De Lange & Howieson, 2004; Radebaugh, Gerbardt, & Gray, 1995; Saudagaran & Biddle, 1992).

⁴ The significant resources available to the FASB is evidenced by US\$43 million cash it received from contributions, publications and support fees during 2009 relative to the £21 million cash received by the IASB from contributions and publications and related services for the same period (FAF, 2010; IASC Foundation, 2009).

⁵ As noted by Henry, Lin and Ya-wen (2009), U.S.-foreign GAAP reconciliation requirements date to 1982. It reflected a desire to balance investor demand for comparable information and facilitated foreign investment opportunities.

After many years of debate, in 2005 the SEC announced a possible 'Roadmap' that would see it accept IFRS from foreign issuers. The 'Roadmap' is discussed by Nicolaisen (2005), the SEC's chief accountant, who highlighted that:

... if developments surrounding IFRS – the standards, their application, and convergence – continue in the right way, then within this decade the SEC staff should be in a position to recommend that the Commission eliminates the requirement for foreign private issuers to reconcile financial statements prepared under IFRS to U.S. GAAP.

It would seem that the SEC was satisfied with the progress of the IASB and, in 2007, released and subsequently passed a proposed Rule change to allow foreign issuers to lodge financial statements prepared in accordance with IFRS as published by the IASB (SEC, 2007)⁶.

With regards to a possible adoption of IFRS for U.S. firms, many have argued that it would take time before the U.S. commits to IFRS adoption if, in fact, it ever does adopt it (see for example, Ham, 2002; Picker, 1998). De Lange and Howieson (2006, p. 1013) highlighted that there was no real incentive for U.S. firms to adopt IFRS given that:

... the U.S. already possesses the world's largest capital market and so there seems to be little obvious incentive for U.S. firms to want to go to other countries' capital markets simply to raise funds.

Despite this, since 2002, the FASB and IASB have been working on a joint convergence project referred to as the *Norwalk Agreement*. As part of this agreement, Tweedie and Seidenstein (2005, pp. 597-598) identified that the two boards agreed to:

- (A) Undertake a short-term project aimed at removing a number of individual differences between U.S. GAAP and International Financial Reporting Standards (IFRS, which include International Accounting Standards, IASs);
- (B) Remove other differences between IFRS and U.S. GAAP that remained on January 1, 2005, through coordination of their future work programs, that is, through the mutual undertaking

⁶ (Zeff, 2008, p. 276) commented on the importance of the SEC's wording that it would only accept statements prepared in accordance with "IFRS as published by the IASB". He noted that whilst the SEC would accept the statements of EU firms which had been prepared using the IAS 39 carve-out, others who adopt locally modified IFRS might not automatically qualify for the waiver of the US-GAAP reconciliation requirement.

- of discrete, substantial projects which both Boards would address concurrently;
- (C) Continue progress on the joint projects that they are currently undertaking; and
 - (D) Encourage their respective interpretative bodies to coordinate their activities.

In 2006, the IASB and FASB released an updated Memorandum of Understanding reaffirming their commitment to convergence (Street & Linthicum, 2007). These convergence initiatives have resulted in a number of changes to both IFRS and U.S. GAAP. Table 1, as developed by Nobes and Parker (2010, p. 118), summarised the results of this convergence initiative.

Table 1: IFRS and U.S. GAAP Convergence

IFRS moves to U.S. GAAP	U.S. GAAP moves to IFRS
Discontinued operations, IFRS 5 (2004)	Exchanges of assets, SFAS 153 (2004)
Segment reporting, IFRS 8 (2006)	Accounting policies, SFAS 154 (2005)
Borrowing costs, IAS 23 (revised 2007)	Fair value option, SFAS 159 (2007)

With a possible mind-set to a more speedy convergence between IFRS and U.S. GAAP, on 14 August 2007 the SEC requested comments on the concept release to allow U.S. listed companies to prepare financial statements using IFRS. The due date to provide comments was 13 November 2007 (SEC, 2007). It is expected that these comments will form part of the basis of the SEC's stance on IFRS within the U.S.

Zeff (2008) provided an initial review of the responses to this concepts provided by the Big Four accounting firms, the U.S. Financial Accounting Foundation (FAF) and the FASB. The Big Four were in favour of the general direction and highlighted the need for careful transitional planning. Both the FAF and FASB were concerned about the potential loss of comparability over the transition period in cases where firms adopt IFRS during different periods. The FAF and FASB's comments reflected a general desire for a collaborative approach to the development of an improved body of IFRS.

The IASB and the FASB are presently working towards a converged accounting solution for financial instruments, leases and insurance. IASB-FASB plans to work on projects in the area of revenue, classification and measurement, impairment, leases and insurance in next two years and issue final standards in these areas by mid-2013 (IASB, 2012)

These U.S. developments have been, at least partially, spurred on by criticisms of U.S. GAAP following the Enron and WorldCom collapses (De Lange & Howieson, 2004; Hansen, 2003; Haswell, 2006). The move by the EU to adopt IFRS should not, however, be underemphasised and is acknowledged by Nicolaisen (2005).

2.2 *The Gulf between IFRS and U.S. GAAP*

Despite convergence efforts and despite frequent observations of a U.S. domination of IASB activities (see for example, Chand & White, 2007; Haswell, 2006), a number of significant variations between IFRS and U.S. GAAP exist. Comparisons of these two sets of standards are available and include, for example, those provided by the Big Four accounting firms (Deloitte, 2008; Ernst&Young, 2009; KPMG, 2010; PriceWaterhouseCoopers, 2010) as well as those outlined in international accounting textbooks (see for example, (Choi, et al., 2002; Nobes & Parker, 2010; Roberts, Weetman, & Gordon, 2005). Selected areas of difference between IFRS and U.S. GAAP are outlined in Appendix 1.

Recent evidence on the potential impact of these differences on firms' reported financial position and performance is provided by Haverty (2006) and Henry et al. (2009)⁷. Both these studies explore past results of Form 20-F reconciliations from IFRS to U.S. GAAP. Haverty (2006) studied the reconciliations of 11 firms from the People's Republic of China over the years 1996-2002. Overall, the computation of income under IFRS was materially lower than that computed under the U.S. GAAP. The most significant reason for the observed lack of comparability related to the revaluation of fixed assets. Henry et al. (2009), on the other hand, utilised the reconciliations of 75 EU companies over the period 2004-2006. Whilst the difference between IFRS and US-GAAP reported results of firms narrowed over the research period, significant differences in reported net income remains. In summary, Henry et al. (2009) found:

... that the amount of reported net income is more than 5 percent higher under IFRS than under U.S. GAAP for nearly 60 per cent of the firms in the sample, but more than 5 percent lower under IFRS than U.S. GAAP for only 16 per cent of firms. We also find that 60

⁷ Henry, et al. (2009) further acknowledges Harris and Muller (1999) and Street, Nichols and Gray (2000) as earlier comparisons of IFRS to U.S. GAAP reconciliation studies.

per cent of the sample firms report shareholders' equity lower under IFRS than U.S. GAAP (pp. 123-124).

Differences between IFRS and U.S. GAAP requirements relating to pensions and goodwill were the most frequently occurring reconciliation items⁸.

Potentially more important than the specific measurement and disclosure differences between IFRS and U.S. GAAP is the difference in what is said to be the IASB's principles-based approach and the US's rules-based approach to standard setting (see for example, Barth, 2008; Benston, Bromwich, & Wagenhofer, 2006). As summarised in Table 2, which draws from Appendix 1, principles-based standards might be loosely distinguished from rules-based standards in terms of reliance on professional judgement, length and complexity and allowance for treatment and scope exemptions (see for example, Benston, et al., 2006; Gill, 2007; Schipper, 2003). Illustrations are provided in an attempt to avoid the criticism that such distinctions fail to "give you some substantive examples" (Sunder, 2009, p. 103)⁹. The criticisms of rule-based standards following the fall-out of Enron and World accounting scandals led to the consideration of U.S. to a more principles-based approach (Gill, 2002; Nobes, 2005). As part of their report, Nicolaisen (2005) highlighted that SEC staff were encouraged to make use of what were referred to as objective-orientated standards which strike a balance between principles and rules-based approaches¹⁰.

Overall, however, any attempts to distinguish between principles and rules-based approaches should be viewed as being "more relative than absolute" (Barth 2008, p. 1161). Similar to the IASB, the FASB's activities are guided by a conceptual framework (Schipper, 2003). In fact the U.S. conceptual framework influenced the development of standards by other standard setters including the UK (Nobes & Parker,

⁸ Given the indirect nature of the comparisons, caution should be taken in interpreting the results of Haverty (2006) and Henry, et al. (2009) as evidence of diversity between IFRS and U.S. GAAP. Here is evidence of the difference between foreign firm IFRS and U.S. GAAP results. Given the influence of other factors (i.e. managerial incentives, enforcement mechanisms) on reported results other than accounting standards (see for example, Ball, 2006; Ball, Robin, & Wu, 2003; Leuz, Nanda, & Wysocki, 2003), a different result is likely for U.S. firms.

⁹ Further illustrations relating to leases, employee benefits, financial assets, government grants, subsidiaries and equity accounting are discussed in detail by Nobes (2005).

¹⁰ Refer to, for example Godfrey & Langfield-Smith (2005), Nobes (2005), Benston, et al. (2006) for comprehensive reviews of the apparent pros and cons of principles and rules-based approaches to standards setting.

2010). On the other hand, to categorise the IASB as a purely principles-based standard-setter is incorrect. Similar to the FASB, the IASB has been criticised as being an issuer of overly complex standards with, for example, IAS 39 *Financial Instruments* being berated as the “world’s most complicated rules-based standards” (Haswell, 2006, p. 54). Furthermore, noting the 2,000+ pages of IFRS and their official interpretations, Sunder (2009, p. 103) commented that “one would have to think long and hard to find a profession whose principles require this many pages to state”.

Table 2: Rules-based versus principles-based standards

Issue	Principles-Based	Rules-Based	Illustration
Reliance on professional judgement	High. Accountants select what they perceive to be correct treatment based on their interpretation of underlying principles and definitions.	Low. Accountants select the correct treatment having worked through detailed guidelines.	IFRS provide no prescriptive layout for financial statements. Under U.S. GAAP, detailed requirements are provided by Regulation S-X.
Length / complexity	Short/Low.	Long/High.	“While IFRS currently fills approximately 2,000 pages of accounting regulations, U.S. GAAP comprises over 2,000 separate pronouncements, many of which are several hundred pages long, issued in various forms and formats by numerous bodies” (Gill, 2007, p.71).
Allowance for treatment and scope exemptions	No explicit treatment or scope exemptions are provided.	Various treatment and scope exemptions are provided.	IFRS have no industry-based exemptions for consolidation accounting. U.S. GAAP allows certain industries to avoid the need to prepare consolidated financial statements.

2.3 *The Desirability and Impact of IFRS Adoption*

Given the abovementioned diversity between the standards and approaches of the IASB and U.S., a potential swift from U.S. GAAP to IFRS for U.S. issuers is likely to present significant challenges for U.S. financial report preparers and users, auditors, and educators. Among other things firms will need to:

- Ensure that their financial information is comparable and opening balances are in compliance with IFRS;
- Obtain outside accounting policy advice on areas of uncertainty;
- Adjust budgets and performance evaluation measures to the extent that they are reliant on financial accounting information;
- Train and familiarise employees with IFRS reporting requirements;
- Upgrade accounting information system software and protocols to ensure they are capable of handling any reporting requirement changes; and
- Educate financial statement users to enable them to distinguish changes in financial statements caused by IFRS adoption from those caused by changes in operating conditions (see for example, Hail, Leuz, & Wysocki, 2010; Haller & Eierle, 2004; Holgate & Gaull, 2002; Macek, 2003; Walters, 2003; Williamson, 2003).

Such transitional costs are likely to have a significant fixed component and as such will impose a relatively larger burden on smaller firms (Hail, et al., 2010; Haller & Eierle, 2004; Howieson & Langfield-Smith, 2003; Kirby, 2001).

Some of the benefits typically alleged for accounting convergence are likely to be of little relevance to U.S. issuers. To illustrate this, given the existing international recognition of U.S. GAAP, there is unlikely to be too many U.S. firms which benefit from the elimination of any restatements of accounts to meet foreign stock exchange listing requirements. The use of IFRS by U.S. firms may, however, improve the comparability of U.S. firms' financial results with their international counterparts. Whilst there is little empirical evidence to support the conclusion, such an improvement in comparability could potentially have a positive impact on market liquidity and lead to cost of capital savings (Hail, et al., 2010). To the extent that U.S. firms and their subsidiaries will be all utilising IFRS, firms could benefit from reduced confusion and cost savings as group results are consolidated, discussed

and evaluated. Furthermore, an improved familiarity with IFRS might enable U.S. firms to more easily evaluate the financial position and performance of potential foreign investment opportunities, suppliers and customers (Hamilton, 1998; Humphry, 1997; Walton, 1992).

Beyond considerations of potential transitional costs along with potential benefits from improved comparability of particular concern to the U.S. is the overall quality and comprehensiveness of IFRS as well as the independence of the IASB.

IFRS have been described as being based upon an international compromise, less rigorous than other accounting standards, overly complicated and increasingly rules-based, internally inconsistent, lacking guidance, and as allowing too many choices or options (see for example, Godfrey & Langfield-Smith, 2005; Haswell & Langfield-Smith, 2008; Sharpe, 1999; Warrell, 1999). Despite such negativity, in the evaluation of IFRS and its impact on reporting quality Hail et al. (2010, p. 369) noted that "U.S. adoption of IFRS is unlikely to have a major impact on reporting quality". In support of this conclusion, Hail et al. (2010, p. 369) suggested that:

To the extent that U.S. firms currently optimise their reporting strategies, they are expected to resist mandated changes that are not in their interest by using the flexibility inherent in the standards. The reporting incentives that were at play in the United States *before* the introduction of IFRS will still be at play *after* the switch. For this reason, IFRS adoption alone is unlikely to increase reporting quality and yield substantial capital market benefits, even when IFRS are viewed as superior to U.S. GAAP (e.g., Ball 2006; Christensen et al. 2007; Daske et al. 2008, 2009). Conversely, it is difficult to force firms to reduce their reporting quality below its optimal level. Firms can always go beyond the required disclosures and provide further explanations or reconciliations in the notes. Thus, IFRS adoption in the United States is unlikely to decrease reporting quality, unless we believe that U.S. GAAP and the SEC disclosure regime significantly exceed the optimal level of reporting quality from a firm's perspective... In addition, the relatively strong U.S. enforcement mechanisms will remain in force after a switch.

The IASB as we generally know it today resulted from the re-structure of the International Accounting Standards Commission (IASC) following criticisms from various groups that the IASC needed a more rigorous and independent standard setting process (Brown & Tarca 2001; IASB 2006). Despite this re-structure, serious questions about

the independence of the IASB's standard setting processes remain. Such criticisms have arisen, for example, as a result of critiques of the IASB's funding arrangements, membership structure and its apparent susceptibility to political pressure.

Brown (2004) evaluated the IASB's funding arrangements, membership structure and overall activities. Following the earlier work of Brown, Tower and Taplin (2004), Brown (2004) classified stakeholder groups as being either *core-financial* stakeholders, *partial-financial* stakeholders, or *non-financial virtue-based* stakeholders. In interpreting the results of this analysis, Brown (2004) concluded that the IASB is substantially funded by large multinational corporations and elite accounting firms (*core-financial* stakeholders) and, as such, is locked:

... into patronage and dependency, and critical issues, such as the promotion of environmental accounting standards, development accounting and human resource accounting may be sidelined to make way for the political and economic agenda of its generous benefactors (p. 385).

Brown (2004) further commented on the IASB's membership consisting of high proportion of western auditors and preparers with only a "narrow band of users and other members" (p. 389). Also reviewing the financing arrangements of the IASB, Larson and Kenny (2011) analysed the contributions received by the IASB and former IASC over the period 1990-2008. On the positive side, the number of donors significantly increased over the research period, the geographic dispersal of donors increased and the number of mandatory contributions increased. On the negative side, however, corporations, central banks and Big Four accounting firms still dominate the list of donors.

The IASB's potential susceptibility to political pressure is evidenced, for example, by its reaction to the Global Financial Crisis (GFC) and apparent standard setting amendments aimed at appeasing the desires of domestic regulators. Discussing the GFC, Howieson (2011, p.3) portrayed how:

... the existing mechanisms for promoting standard setters' independence (namely due process and oversight bodies) were overwhelmed in 2008 and 2009 as the standard setting boards [IASB and FASB] were battered by a clash of economic and cultural interests (for example, the EU and the U.S.) and then fried in a political oil heated by the self-interests of some elements of the financial sector.

Alali and Cao (2010) further provide examples of how the IASB responded with changes to financial instrument standards in response to EU pressure and changes to related party disclosure requirements in response to Chinese pressure.

The IASB strives to make its funding model more independent by gradually reducing dependence on voluntary contributions and developing a funding model based on contributions from official authorities in diverse jurisdictions. In 2011, contributions from companies as a percentage of total funding reduced to only eight per cent and contributions from accounting firms to 26 per cent totalling to only 34 per cent of total revenues. The IASB aims to further reduce dependence on private contributions in the future (Bruce, 2011).

3. Research Method

In an attempt to better understand the desirability of the use of IFRS by U.S. firms and the nature of parties contributing to the policy debate, this paper extends the initial work of Zeff (2008) and conducts an in-depth textual analysis of comments received by the SEC on the concept release to allow U.S. issuers to prepare financial statements using IFRS.

Written texts present a discursive passage between encoding and decoding that requires special scholarly engagement (Fursich, 2009). Textual content's potential as a site of ideological negotiation and of mediated reality necessitates interpretation (Fursich, 2009). Textual analysis does not derive from a united intellectual and methodological tradition. Rather, it is a cultural-critical paradigm, a methodological strategy of deconstruction that attempts to conduct textual research. Deconstruction radically questions underlying assumptions of a text by exploring and exposing internal inconsistencies.

Textual analysis is generally a type of qualitative analysis. It focuses on the underlying ideological and cultural assumptions of the text. Text is understood as a complex set of discursive strategies that is situated in a special cultural context. It can use semiotic, narrative, genre or rhetorical approaches to qualitative analysis, and select and present analysed text as the evidence for the overall argument (Fursich, 2009). This analysis is different from quantitative content analysis which divides and codes texts into quantifiable units of analysis (Fursich, 2009). It attempts to overcome the limitations of traditional quantitative content analysis such as the limitation to manifest content into quantifiable

categories. Textual analysis discerns latent meaning and implicit patterns, assumptions and omissions of a text (Fursich, 2009).

Textual analyses also draw on linguistic, literary-critical, rhetorical and semiotic interpretive strategies. It may be labelled text-based analysis, thematic analysis, critical discourse analysis, ideological analysis or more specific types such as genre analysis or cultural analysis. Critical discourse analysis, for example, presents detailed and rule-bound investigative strategies. It views criticism as an argumentative activity in which the goal is to persuade the audience that their knowledge of a text will be enriched if they choose to see a text as the critic does.

Textual analysis evaluates the possibilities of the text under investigation, emphasising the possibilities of meaning rather than its certainty (Dow, 1996). It is open-ended and multi-layered, identifying preferred positions (or frameworks) and subordinate frameworks, discerned as fragments, or as contradictions in the dominant form (Dow, 1996). Text plays out myths, rituals and archetypes. Textual analysis also engages with the messiness of the world and confronts the limits of this reality (Higgins, 1996).

Guided by prior research using textual analysis (Entman, 2003; Shah and Nah, 2004; Steeves, 1997), categories were identified to deconstruct the contents of each article: story focus; salient words within texts; background information in the story; discussion of the underlying problem in the story; and solutions offered.

In this study, the unit of analysis was the comment. Each comment was read repeatedly and critically to identify frames. The textual analysis of the comments identified multiple salient frames. 97 comments were received by the SEC.

4. Results and Analysis

Out of 97 comments 10 were communications from the SEC about recent meetings resulting in 87 responses. Out of these 87 responses, 60 (68.97%) were in support of the proposal and 20 (22.99%) against the proposal. Seven (8.04%) responses did not either support or oppose the proposal (Appendix-2).

Respondents who supported the proposal outlined the advantage of the proposal as enhanced comparability, simplification, cost savings, extensive information sets, its capacity to improve the standard setting process and its potential to serve U.S. interests.

Comparability

32 respondents commented that the initiative would lead to improved comparability of U.S. and foreign companies. Eight suggested that accountants were familiar with IFRS as IFRS are widely accepted throughout the world, particularly in the EU. Adoption of IFRS will facilitate comparability and hence trade, including cross-border acquisitions and global investment flows. Familiarity with IFRS and improved comparative investment analysis by investors could help global acquisition preparation and facilitate the flow of investments. Government respondents commented that global convergence of accounting principles would improve the efficiency of global capital markets and benefit stakeholders, especially investors and standard-setters, preparers, auditors, regulators and educators. Regulators would benefit from a single set of accounting standards as they would no longer need to understand different reporting regimes. In terms of the financial services industry, extensive disclosures were already required under IFRS 4 which would enhance comparability.

29 respondents commented that having a single set of accounting standards was vital for smooth functioning of the capital market. Preparation of financial statements based on IFRS would enhance comparability of financial statements, minimising barriers to global competition of capital. Investors would benefit as they would be able to compare companies' financial statements irrespective of their country of origin. Six respondents noted that more than 100 countries had adopted IFRS. Allowing U.S. issuers to adopt IFRS would help them to enter international markets. Data from the World Federation of Exchange and Deloitte & Touche-IAS Plus indicated that about 75% of the global market capitalization outside the U.S. followed IFRS to some extent, with many countries moving towards mandatory adoption of IFRS. An advantage of allowing U.S. issuers to voluntarily adopt IFRS was that if any adverse reaction took place, the program could be withdrawn.

Simplification and cost savings

Five respondents expressed the view that the SEC proposal would simplify the preparation of financial statements and provide cost savings. For example, it was argued by Financial Service Respondents that the proposal would simplify the preparation of financial statements for U.S. insurer' subsidiaries of foreign private issuers as they presently needed to prepare financial statements based on three accounting basis,

that are U.S. GAAP, IFRS and Statutory (the latter is needed for filing to different state insurance departments). The proposal to allow U.S. issuers to prepare their financial statements following IFRS would reduce financial statement preparation from three to two bases. This would bring about a reduction in preparation time and costs.

Two respondents suggested that the reduced preparation load as a result of adopting IFRS would enable auditors to reduce their audit work. A single set of accounting standards will be beneficial for international auditors, who would be able to assure the quality of their work on a worldwide basis. One respondent noted that the audit profession in the U.S. is ready to support the use of IFRS by all domestic registrants. Indeed, U.S. companies, auditors, analysts and investor are already familiar with IFRS.

There were two respondents who noted the co-existence of both U.S. GAAP and IFRS had resulted in significant costs to all stakeholders who wore the risk of non-comparability of financial statements together with the possibility of confusion in the market place. As well as bearing substantial costs, the presence of two accounting standards created unnecessary complexity. Hence, it was important to avoid the cost of preparing duplicate financial statements.

In the long term, the benefits of educating U.S. based financial statement preparers, auditors, investors, regulators and educators would outweigh its costs. It would also reduce costs to foreign investors as they would not have to understand financial statements based on unfamiliar accounting standards, that is, U.S. GAAP. Allowing IFRS for consolidated financials would further help in consolidating systems, policies, procedures and training infrastructure and hence reduce costs. Moreover, the adoption of IFRS in U.S. will make consolidation of businesses having international operation less cumbersome and less expensive. The adoption of IFRS will lead to elimination of duplicate work of accounting staff as they will not be required to maintain financial records/statements based on local standards. Allowing IFRS would also save the cost of capital as the same standard will be applied regardless of the location.

More extensive information

Eight respondents commented that IFRS were reputable standards that led to the preparation of transparent financial information. Many respondents argued that IFRS possessed comparatively greater

information sets than U.S. GAAP and 'high quality' characteristics such as 'neutrality', 'principles-based', 'independence' from national biases, 'robust processes', 'a robust and independent standard setting process', 'robust standards' that 'enhances the efficiency of the reporting process'. The Comptroller General of United States (GAO) suggested that the IASB's principles-based approach to standards setting would enhance quality and transparency of financial reporting. Accounting standards that are firmly based on principles could be applied in a wider context than rules-based ones. As IFRS are principles-based they are easy to follow and flow well to various countries.

On the other hand, U.S. GAAP was too complex, which was evidenced by large U.S. public companies with very sophisticated financial functions having to restate their financial statements because of misinterpretations. U.S. GAAP was deemed as rules-based, diminishing the effectiveness of financial reporting. The complexity of U.S. GAAP had led to some companies interpreting accounting standards and preparing financial statements in a way that was not the intent of these standards. Also, the complexity in the U.S. GAAP had led to financial statements that were not easily understandable except by sophisticated readers. IFRS are principles-based. Hence IFRS are expected to be simpler to apply than U.S. GAAP.

Financial Service Provider respondents noted that IFRS 4 states the minimum requirements of insurance contracts and includes extensive disclosure about insurance contracts that includes the nature and extent of risks arising from such contracts and the entity's accounting policies. These required disclosures, argue the Financial Service Respondents, are more extensive than U.S. GAAP and facilitates comparability, as potential differences in accounting policies exist. Financial Service respondents also argue that investors have confidence in IFRS as European financial markets performed well after adopting IFRS. One accounting practitioner respondent noted that the use of IFRS will improve cash management as it will help in the calculation of dividends of subsidiaries on a consistent basis.

Improvement of standards and smooth transition

Three respondents suggested that the proposal would facilitate the convergence of U.S. GAAP and IFRS. Allowing U.S. issuers to prepare their financial statements based on IFRS would provide incentives to

both U.S. and non-U.S. market participants to develop expertise in IFRS, which would facilitate the convergence of U.S. accounting standards with IFRS. These respondents also suggest that a well designed plan of transition to IFRS for all U.S. registrants might also encourage and enhance the pace of improvement of accounting standards. Financial Service respondents also pointed out that the proposal would lead to greater input from regulators, preparers and accounting firms across the globe in the standard setting process.

Serving U.S. interests

The proposal was also seen by five respondents as enhancing the competitiveness of the U.S. capital market. The proposal would not only enhance trade opportunities for U.S. companies, but also provide informational access to U.S. companies of the global capital market that would enhance the competitiveness of U.S. firms globally. The benefits of international convergence would considerably outweigh its costs. Duplicate financial statements that are presently prepared by foreign subsidiaries would justify the costs of training, updating financial reporting processes, updating underlying product systems and educating investors, banks and other stakeholders¹¹.

There was mention that U.S. retail and institutional investors, analysts, investment bankers, accountants, auditors and public companies already rely on IFRS on regular basis. U.S. registrants would be disadvantaged if not allowed to prepare their financial statements following IFRS as foreign companies are allowed that alternative. Over 100 countries had adopted IFRS and U.S. investors were increasingly investing in foreign markets, relying heavily on IFRS.

On the contrary, minority of respondents were not supportive of the proposal. There was criticism of the lack of independence, enforcement mechanisms and resource availability of the IASB; the deleterious effect on U.S. interests; the questionable quality of the IFRS; and the perceived myths of convergence.

¹¹ One respondent noted that the FASB/FAF advised that there were now disputes of previous research that suggested that existing national differences including the legal structure and corporate governance should lead to difference in accounting standards across countries. FASB/FAF suggested that these differences are disappearing as more countries are adopting an investor-oriented approach to raise capital. Hence a single set of globally accepted accounting standards is appropriate

Lack of independence of IASB

There was concern from six Financial Service Providers about the independence of the IASB due to its current source of funding that are provided by companies and accounting firms. The IASC Foundation has proposed a broad-based, open-ended funding model for the IASB that would lead to country-based proportionate funding based on gross domestic product as the basis to share costs. This funding arrangement was a major shortcoming of the IASB's due process.

Financial Service Provider respondents, in particular, were concerned with issues about sustainability, governance and independence of the IASB, including its funding, the EU endorsement process and investor representation on the IASB. The current funding was the result of voluntary funding by less than 200 organisations. Most of these organisations were companies and accounting firms. Financial Service Providers also noted that the EU endorsement process had led to several incidents. For example, in 2004 the process resulted in a 'carve-out' of several paragraphs from the International Accounting Standard 39: Financial Instruments: Recognition and Measurement. Foreign Service Providers also noted that the 14 board members of the IASB has only one investment professional. Representation of investors is an important element of IASB's sustainability, governance and independence. Financial Service Provider respondents suggested that at least four members of the IASB should be associated with pension funds, investment advisors, equity security financial analysts or equity security portfolio managers.

Lack of enforcement mechanisms and resources

Four respondents commented that the IASB did not have the proper enforcement mechanism for compliance with IFRS. There was no single regulator or enforcement authority to enforce IFRS. This issue needs to be addressed for the success of IFRS' implementation. There was also a concern about the availability of resources to address a significant increase in the number of companies preparing their financial statements following IFRS. Allowing IFRS would concentrate audit to Big Four accounting firms. This will lead to excessive costs. Allowing U.S. issuers to adopt IFRS will lead to concentration of audits by Big Four as they generally are the only firms with extensive expertise in IFRS. The auditing system, education system and licensing system in the U.S. did not have time to adjust to IFRS. Hence allowing IFRS at this stage will lead to chaos. Six respondents also suggested that some U.S. companies might not have adequate resources to convert to IFRS

as U.S. accountants were not formally trained in IFRS, and the change would require new staffing, training and resources.

A respondent noted that the IASB was, at the time, just five years old. They run on private donations. Hence they could dissolve anytime. Private funding could create real and apparent conflicts, if donors believed that they would be favoured in the accounting standards setting process (Academic respondent). The IASB's funding by private entities could create real or apparent conflict. Donors could contribute towards its funding believing that the IASB would return the favour to them. The FASB, on the other hand is funded by the SOX's funding provision and hence there was no such conflict (Academic respondent).

Not in the U.S. national interests

Two respondents suggested that allowing IFRS would lower the importance of U.S. GAAP. Issues that are unique to U.S. may not be addressed by the IASB. U.S. GAAP is based on American commercial law while IFRS was not. If the U.S. followed IFRS, the IASB would have already achieved its aim in the U.S. and have less incentive to compromise with the FASB. This would reduce the ability of U.S. based organisations and individuals to influence accounting standards, especially in light of political pressures exerted by the EU on the IASB.

Further, allowing U.S. issuers with foreign operations to adopt IFRS would lead to publicly traded companies preparing their financial statements using IFRS while private-held companies would continue to follow U.S. GAAP. This would lead to a reduction in comparability between U.S. organisations which, in turn, would lead to confusion and reduce confidence in accounting and financial reporting within the U.S. market. Respondents also suggested that the acceptance of IFRS would lead to a reduction in the value of U.S. CPAs. Accountants in U.S. are not trained in IFRS as knowledge of IFRS is not required for CPA exam.

New York City Bar noted that U.S. issuers may face barriers to make the transition due to local regulations such as loan covenants or similar contracts that require financial statements to be prepared following U.S. GAAP or because of the nature of their industry, such as a regulatory requirement of other body(ies) to prepare financial statements following U.S. GAAP. Hence the SEC should allow but not mandate the use of IFRS¹².

¹² The FASB will lose considerable standard setting power to the IASB. Allowing IFRS by the FASB would hamper the convergence to an improved set of globally accepted accounting standards and will lower the profile of U.S. GAAP. Smaller U.S. companies may not benefit from conversion to IFRS.

Lack of specific quality standards

Eight respondents commented that IFRS were 'inferior' standards compared to U.S. GAAP. This was because U.S. GAAP provided clearer discussion about more transactions, events and other considerations than IFRS. IFRS were also described as 'vague' and were open to many interpretations. There were some areas where IFRS does not have comprehensive standards or does not have standards at all such as in regard to common control mergers, recapitalizations, reorganisations, acquisitions of minority interests, insurance contracts and exploration activities by the extractive industries.

Three Financial Service Providers expressed concern that there was no complete and thorough IFRS on insurance contracts. Moreover, Financial Service Providers were of the view that investment company financial statements prepared under IFRS were less meaningful and transparent than those prepared under U.S. GAAP. U.S. GAAP required the illustration of a fund's financial position and results of operations by requiring the disclosure of the fund's portfolio holdings, investment income, and change in value of holdings together with key measures such as the fund's total return, the income ratio, the expense ratio and the portfolio turnover rate. These were not required to be disclosed under IFRS and hence reporting would be less meaningful. While U.S. GAAP requires the disclosure of financial highlights, there was no such requirement under IFRS. Furthermore, while U.S. GAAP required the separate presentation of investment income such as dividends and income and gains/losses on investment securities, IFRS permitted combining interest and dividend income with gains/losses on securities while computing the net income. Moreover, U.S. GAAP required separate reporting of realised gain/loss on investment securities and the net increase/decrease in unrealised gain/loss on investments. IFRS required investment companies to report cash flows though it provides little benefit to investment company shareholders. This requirement to report cash flow statements may divert the attention of shareholders from more important information contained elsewhere in financial statements. IFRS required the reporting of two years' balance sheets, income statements, statement of changes in equity and cash flow statements, whereas the U.S. GAAP required only the presentation of the recent period's statements for investment companies. Whereas the two years' statement was more appropriate for other corporate entities, it was not appropriate for investment companies. Rather, the total return relative to a benchmark index was more useful. Hence, the disclosure

of the two years' statement under IFRS would also divert attention of shareholders from more important information contained elsewhere in financial statements.

SJW Corporation, a water supply company suggested that there was no comparable standard to U.S. Accounting Standard 71 in IFRS. Following SFAS 71, regulated companies record deferred costs and/or credits as regulatory assets and liabilities in their balance sheet when it is likely that these costs and/or credits will be recouped in the future through the rate setting process. There is no equivalent standard in IFRS except in rare circumstances. This may lead to volatility in utilities sector's reporting that was not experienced by under U.S. GAAP.

Professional accounting body representatives noted that in some areas IFRS lacked detailed guidance that would result in differences in accounting practices between companies. This included revenue recognition where IFRS lacked guidance. Given the principles-based nature of IFRS, interpretations of IFRS varied around the world. It was possible U.S. investors might not be aware of these inconsistencies. Issuers will have more of an opportunity to manage earnings under IFRS than U.S. GAAP. One advisor body, International Corporate Governance Network (ICGN), explained that IFRS did not require the presentation of income statement in a standardised format, which is not investor friendly and might adversely affect the understanding of information.

Creditor respondents commented that a change from U.S. GAAP to IFRS might diminish the information provided to analysts by insurers and companies in the extractive industries. Introducing two sets of financial reporting systems would, for example, complicate matters for Standard & Poor's analysts as these analysts will then need further analytical judgements to compare financial statements. There is no extensive standard for insurance contracts and extractive industry under IFRS. In areas such as pension accounting, IFRS did not have any guidance as well.

Myths of convergence

At the present stage there were significant differences between U.S. GAAP and IFRS. Further convergence of U.S. GAAP and IFRS is required to achieve a minimal level of comparability. Allowing U.S. issuers to follow IFRS might undermine the efforts of convergence. There were reporting differences between U.S. GAAP and IFRS with regard to capitalised interest, allowances for funds used during

construction, segregation of assets and asset impairment under utility plants, asset impairments, deferred tax, uncertain tax positions, and asset retirement obligations.

It was naive to believe that a uniform set of accounting standards throughout the world will lead to uniform accounting practice. An academic respondent suggested that a uniform set of accounting standards will give false impression that accounting practices were same throughout the world. Judgements would differ depending on local political, economic and cultural environments, legal norms, financial market size and scope, relative ownership concentration, family owned versus bigger companies, the character and status of auditing profession and the press and a government's role in an economy.

National interests would overrule the aspirations of a set of globally uniform accounting standards. When the IASB proposed accounting standards for complex financial instruments French banks objected, saying the standards would cause too much volatility in their financial reports (Academic respondent)¹³. According to creditor respondents, neither U.S. GAAP nor IFRS provide all information required by financial statement users. Standard & Poor's analysts obtain information outside financial statements.

5. Implications to the Asian region

There are considerable ramifications to the Asian region if the U.S. adopts IFRS. The accounting standards boards of two of Asia's most populous nations, China and Indonesia which have already adopted the majority of IFRS (Cong, Tower, Van der Zahn and Brown, 2010; Setyadi, Rusmin, Tower and Brown, 2011) may feel compelled to extend IFRS beyond listed companies to non-listed ones that will have an impact on their measurement and disclosure practices. Indeed, many Asian companies reporting through their national GAAP and wanting to list abroad may need to fully adopt IFRS to achieve foreign listing status. The almost non-representation of Asian members on the IASB (Brown, 2008) would

¹³ Potential constraints to accept IFRS by the SEC appear from the Sarbanes-Oxley Act of 2002 (SOX). The Act has authorised the SEC to recognise standard setting bodies that meet certain criteria. These include some that IASB clearly meets such as being a private entity having trustees unaffiliated with public accounting firms; some it clearly lacks such as simple majority voting to approve standards and public funding; and some that it may or may not possess such as prompt consideration of new standards and protecting investors under U.S. securities laws (Academic respondent).

also have to be reviewed, as the sheer size of Asian economic activity would necessitate improved representation on the IASB.

Until the U.S. adopts IFRS, the Asian region has more opportunity to lobby for their representation in the IASB. If the U.S. does not adopt IFRS, then in a sense Asian countries have an opportunity to nurture their national accounting standards by cherry-picking the 'best' standards from U.S.GAAP and IFRS. This may, however, create problems for Asian listed companies wanting to list on the NYSE or European stock exchanges. It is possible that two sets of accounts might need to be prepared to satisfy both domestic and foreign listing requirements.

6. Conclusion

There exists debate in the academic literature about whether the adoption of IFRS leads to best practice. Criticisms of IFRS include that they are less rigorous than other accounting standards, overly complicated and increasingly rules-based, internally inconsistent, lacking guidance and allowing too many choices or options (see for example, Sharpe, 1999; Warrell, 1999; Godfrey and Langfield-Smith, 2005; Haswell and McKinnon, 2003). Our paper contributes to the understanding of the overall desirability of international accounting convergence as well as the politics involved in attempting to reach consensus on such decisions.

The textual analysis reports that most respondents supported the proposal particularly in terms of the IFRS' virtues of comparability, simplification, cost savings, extensive information sets, its capacity to improve the standard setting process and its potential to serve U.S. interests. Many respondents also commented that IFRS were 'robust' and 'high-quality'. This is particularly noteworthy considering the long standing debate about whether the U.S. should adopt IFRS.

On the contrary, some respondents criticised the proposal on the grounds that the IASB lacked independence, possessed inadequate enforcement mechanisms and resources. Some respondents also suggested that the proposal is not beneficial to U.S. interests.

The potential adoption of IFRS in the U.S. has implications for the Asian Region. If U.S. adopts IFRS it will create more pressure on the Asian region to adopt these standards. In such ever-increasing pressure Asian countries may be compelled to extend the adoption of IFRS to non-listed companies. The choice of standards will be further limited to one set of accounting standards as compared to the present, due to the availability of two sets of standards that are U.S. GAAP and IFRS.

It is likely that U.S. will only adopt IFRS if the IASB considers the U.S. context in further developing its standards. However, due to lack of representation of Asian members in the IASB, these countries will need to provide further consideration as to whether such IFRS are suitable for this region. In the midst of such increased pressure to adopt IFRS, if U.S. adopts these standards there is danger that Asian region countries will adopt IFRS ignoring their local customs and context leading to disastrous consequences. On the contrary, if the U.S. does not adopt IFRS, Asian countries still have the opportunity to create more pressure on IASB for representation from this region and consider the two competing standards that are U.S. GAAP and IFRS as their local standard.

Considering the wide acceptance of IFRS and most respondents to the concept of release of SEC supported the adoption of IFRS, it is suggested that the SEC should accept IFRS for U.S. issuers. However, U.S. laws will need to be referred to in such adoption to ensure consistency. However, it should be noted that there were only a limited number of respondents engaged in the data gathering for the proposal. Most respondents were either core-financial or partial-financial stakeholders. There were only limited responses from non-financial stakeholders. This gap was particularly acute given that some of the responses appeared to focus on the national interest argument. Moreover, the concerns of the funding of IASB might have been fleshed out further if non-financial voices were heard.

A further difficulty of the data-gathering process of the SEC is that the depth of arguments provided by the respondents was at times shallow. Given the very few comments (97) offered, much more effort needs to be expended on seeking further feedback.

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Appendix 1: Selected Differences between IFRS and U.S. GAAP

Area	IFRS	U.S. GAAP
Revenue recognition	Two standards and four revenue-focused interpretations are provided. This material is typically applied without further guidance or any industry-specific exemptions.	Very extensive guidance is provided with various, sometimes industry-specific details provided.
Inventory cost flow assumption	Last-in-First-Out (LIFO) is prohibited.	LIFO can be used.
Inventory write-downs	Inventory write-downs can be reversed to the extent that they cover previous impairment losses.	Inventory write-downs cannot be reversed.
Measurement of non-controlling interests	Can be measured at either: (1) fair value, or (2) using the proportional share of net assets acquired.	Must be measured at fair value.
Presentation of financial statements	Whilst certain minimum line items must be disclosed, no prescriptive layout is provided.	Detailed requirements are provided by Regulation S-X.
Classification of expenses on the face of the income statement	Expenses can be classified by either nature or function.	Expenses must be classified by function.
Recognition of extraordinary on the face of the income statement	Prohibited	Can be recognised if they are unusual and infrequent.
Control definition	Whether an entity needs to be consolidated as part of a group's consolidated financial statement is dependent on control with control potentially being evidence by a number of factors. Potential voting rights must be considered.	Whether an entity needs to be consolidated as part of a group's consolidated financial statement is dependent on the existence of a controlling financial interest. Potential voting rights are not considered.
Consolidation exemptions	No industry-based exemptions.	Firms from certain industries (i.e. investment companies) need not prepare consolidated financial statements.
Revaluation of property, plant and equipment	Firms have the option of measuring property, plant and equipment at either cost or fair value.	Prohibited
Revaluation of intangible assets	Can be revalued if an active market for the asset exists.	Prohibited
Investment properties	Separately defined as part of IAS 40 with firms electing to adopt either a cost or fair value valuation model.	Treated as a non-current asset held for use or sale and measured at the lower of (1) carrying amount, or (2) fair value less cost to sell.
Development expenditure	Can be capitalised if the technological and economic feasibility of the project can be demonstrated.	Generally expensed in the period in which incurred unless, for example, the expenditure relates to computer software development.

(Deloitte, 2008; Ernst&Young, 2009; KPMG, 2010; Price WaterhouseCoopers, 2010)

Appendix 2: Desirability of IFRS by respondent groups

Category	Total	Support	Against	Neutral
Academic	16	8	2	6
Financial sector	31	20	10	1
Information Technology	4	4		
Service sector	1		1	
Manufacturer	4	2	2	
Accounting firm	5	5		
U.S. professional body	6	2	4	
Retail sector	1	1		
Foreign professional body (including 2 accounting ones)	5	5		
Insurer	1	1		
US Regulator	2	1	1	
Foreign regulator	1	1		
Preparer of financial statements (accountant)	1	1		
No affiliation	4	4		
Stock Exchange	1	1		
Lawyer body	1	1		
Government Auditor	1	1		
Chamber of Commerce	1	1		
Autonomous public policy organisation	1	1		
Total	87	60	20	7