

**DEVELOPING INTERNATIONAL ACCOUNTING
STANDARDS—THE SEC'S 20-YEAR JOURNEY
(JUNE 1995–DECEMBER 2015):
PART 1 (JUNE 1995–AUGUST 2006)**

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Abstract

Cross-border investment opportunities soared in the late 1980s and 1990s, resulting in a call to harmonize accounting standards. For the past twenty years, the U.S. Securities and Exchange Commission (SEC or Commission) has invested significant resources in support of achieving a high quality set of global accounting standards that could be used in cross-border transactions.

In March 1996, more than 750 foreign issuers, representing over 45 countries, were registered with the SEC (Sutton, 1996). The U.S. Congress also was interested and engaged in the international accounting standards debate. In 1996, the Congress directed the SEC to respond to the expanding global securities markets by supporting the development of a high quality set of global accounting standards as soon as realistically possible.

The purpose of this study is to evaluate the SEC, and specifically, the Office of the Chief Accountant

and its Chief Accountants because accounting standards generally are established and enforced by the SEC's Chief Accountant, and these individuals' actions and relationships primarily with three external standard-setting bodies (FASB, IASC, and IASB)—across two decades (June 1995–December 2015)—for the purpose of assessing the Commission's actions and furtherance of a high quality set of global accounting standards that can be used for cross-border transactions in the United States and across other global markets.

This study is presented as a two-part series. Part 1 covers the period of June 1995 to August 17, 2006, while Part 2 covers the period August 18, 2006 through December 2015.

We are facing a future in which capital flows across borders can be expected to continue to grow, and the need for a common, high quality financial reporting and disclosure framework to facilitate cross-border financings will become more intense.

*Michael H. Sutton
SEC Chief Accountant
(June 1995 – January 1998)*

INTRODUCTION

You might imagine that the above passage was communicated in 2015, but it was spoken by Chief Accountant Michael Sutton, almost 20 years ago (Sutton, 1996, p. 6); albeit, the passage seems relevant to either or both periods. Sutton may not have fully appreciated how profound his words would prove to be when, in 1996, he asserted that the SEC's "participation in the

development of international accounting and disclosure standards is a long-term process" (Sutton, 1996, p. 7). For over three decades, the U.S. Securities and Exchange Commission (SEC or Commission) has been interested in international accounting standards, and for more than 20 years, the Commission has invested significant resources in support of achieving a high quality set of global accounting standards that could be used in cross-border transactions.

In 1973, the SEC supported the American Institute of Certified Public Accountants' (AICPA) participation in the creation of the International Accounting Standards Committee (IASC) (Zeff, 2012). By 1988, the SEC maintained that U.S. capital markets were being hampered by disparate national accounting standards. On November 21, 1988, the Commission issued a policy statement of support for establishing mutually acceptable international accounting standards (USSEC, 1988; USSEC, 2007) in order to eliminate or reduce regulatory impediments due to these disparate standards.

By March 1996, more than 750 foreign issuers, representing over 45 countries, were registered with the SEC (Sutton, 1996). In 1996, the U.S. capital market was considered second to none, in large part, due to its high-quality financial accounting and reporting standards. The SEC was not the only body interested in international accounting standards. The U.S. Congress was keenly interested and actively engaged in the international standards debate. In 1996, pursuant to the *National Capital Markets Efficiency Act* (USHR, 1996), Congress directed the SEC to respond to the expanding global securities markets by supporting the development of a high quality set of global accounting standards as soon as realistically possible.

As new cross-border investment opportunities soared in the late 1980s and 1990s, the call to 'harmonize' accounting standards for cross-border transactions grew louder (Sutton, 1997). The SEC supported the global accounting standards initiative during one of the most turbulent periods since the SEC was established in 1934.

Some of the more significant events that occurred during the first 15 years of the 21st century included:

- 9-11 terrorist attacks (2001);
- Enron scandal and subsequent filing for bankruptcy (December 2, 2001) (Wikipedia, 2015e);
- WorldCom collapse and subsequent filing for bankruptcy (July 21, 2002) (Wikipedia, 2015i);
- enactment of the Sarbanes-Oxley Act (July 30, 2002) (USHR, 2002);
- formation of the PCAOB and the subsequent regulation of the auditing profession for the first time in U.S. history [USHR, 2002 (Section 108)];
- accounting scandal associated with Arthur Andersen and the firm's subsequent voluntary surrender of its right to practice before the SEC (August 31, 2002) (Wikipedia, 2015a);
- backdating of stock options issue (2006-2010);
- U.S. housing bubble with property values dropping from 2006 through 2012;
- failure and bankruptcy of the fourth-largest investment bank in the U.S., Lehman Brothers with assets of \$639 billion and \$768 billion debt, (September 15, 2008) (Wikipedia, 2015h);
- enactment of Emergency Economic Stabilization Act [(TARP) October 3, 2008] and other federal bailout

programs (financial and automotive sectors) (Wikipedia, 2015d);

- Bernard Madoff 'Ponzi' scheme (December 8, 2008) (Wikipedia, 2015b);
- 2007–2008 financial crisis and the prolonged U.S. recession;
- enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (July 21, 2010) (Wikipedia, 2015c);

Despite these transformative events and environmental challenges, the SEC has invested considerable resources to advance international accounting standards. During the past 20 years, the SEC has overseen the work of the Financial Accounting Standards Board (FASB) and worked with two international standard-setting bodies—the International Accounting Standards Committee (IASC) and the International Accounting Standards Board (IASB). The IASC was formed in June 1973 by ten national accountancy bodies [Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom (in a joint delegation with Ireland), and the United States] (Wikipedia, 2015g). On April 1, 2001, the IASC was restructured as the International Accounting Standards Board (IASB) (Wikipedia, 2015f). These two international bodies will be discussed later in greater detail.

The purpose of this study is to evaluate the SEC, and specifically, the Office of the Chief Accountant (OCA or Office) and its Chief Accountants (CA) because accounting standards generally are established and enforced by the SEC's Chief Accountant, and these individuals' actions and relationships primarily with three external standard-setting bodies (FASB, IASC, and IASB)—across two decades (June 1995–December 2015)—for

the purpose of assessing the Commission's actions and furtherance of a high quality set of global accounting standards that can be used for cross-border transactions in the United States and across other global markets. Former chief accountant, Robert K. Herdman (2001) opined (p. 2):

There is no question that the unique power of the SEC enables it to have a profound influence on accounting and financial disclosure. I am firmly convinced that proactive use of that power can lead to great things. However, we must be judicious in its use.

This study is presented as a two-part series. Part 1 covers June 1995 to August 17, 2006 (Mr. Sutton to Mr. Taub, the second time that he served as Acting Chief Accountant), while Part 2 covers August 18, 2006 through December 2015 (Mr. Hewitt to Mr. Schnurr). Exhibit 1 provides a timeline of the chief accountants and acting chief accountants for the two-part series.

Exhibit 1 Timeline of Chief Accountants and Acting (A) Chief Accountants (June 1995–December 2015)						
→ Part 1: [Sutton—Taub (June 1995–August 2006)]						
Sutton	Turner	Herdman	Day (A)	Taub (A)	Nicolaisen	Taub (A)
<u>Jun 95–Jan 98</u>	<u>Jul 98–Aug 01</u>	<u>Oct 01–Nov 02</u>	<u>Nov 02–May 03</u>	<u>May 03–Sep 03</u>	<u>Sep 03–Oct 05</u>	<u>Nov 05–Aug 06</u>
Part 2: [Hewitt—Schnurr (August 2006–December 2015)]						
Hewitt	Kroeker (A)	Kroeker	Beswick (A)	Beswick	Beswick	
<u>Aug 06–Jan 09</u>	<u>Jan 09–Aug 09</u>	<u>Aug 09–Jul 12</u>	<u>Jul 12–Dec 12</u>	<u>Dec 12–Oct 14</u>	<u>Oct 14–Dec 15</u>	

Note that Part 2 will begin on August 18, 2006, at the start of Mr. Hewitt's tenure.

In Part 1, a brief overview of the SEC and the OCA and its Chief Accountant will be presented in Section II and Section III, respectively. In Section IV, the chief accountants (and acting chiefs) that served across the first 10 years (June 1995–October 2005) of the 20-year period that the SEC has actively worked to advance international accounting standards will be presented. Some brief concluding remarks for Part 1 will be presented in Section V.

U.S. SECURITIES AND EXCHANGE COMMISSION

The SEC's mission is to *protect* investors, *maintain* fair, orderly, and efficient markets, and *facilitate* capital formation. Notice that its tripartite mission is based on 'action' words—protect, maintain, and facilitate. Most importantly, "... the SEC is a law enforcement agency" (USSEC, 2013). The laws and regulations that govern the securities industry in the U.S. are derived from a simple notion: all investors—whether large institutions or private individuals—should have access to certain basic facts about an investment prior to buying it, and for as long as they hold the investment. To this end, the SEC requires public companies to disclose financial and other information to the public, thereby providing a common pool of knowledge for all investors to use, and judge for themselves, whether to buy, sell, or hold a given security (USSEC, 2013).

The SEC consists of five presidentially-appointed Commissioners, with staggered five-year terms. By law, no more than three of the Commissioners may belong to the same political party, ensuring non-partisanship. The U.S. President appoints the Chair of the Commission—the agency's chief executive and leader (USSEC, 2013).

OFFICE OF THE CHIEF ACCOUNTANT AND ITS CHIEF ACCOUNTANT

The OCA is responsible for establishing and enforcing accounting and auditing policy to enhance the transparency and relevancy of financial reporting. The SEC's rulemaking can involve a three-step process: (1) concept release for public comment; (2) rule proposal for public comment; and (3) rule adoption (USSEC, 2011). The OCA is a stand-alone office within the Commission. Appointed by the SEC Chair, the Chief Accountant reports directly to the SEC Chairman (USSEC, 2014). He, as no woman has served as Chief Accountant during the SEC's 82-year history, is the principal advisor to the Chair, the Commission, and the SEC's staff on financial reporting, disclosure,

and auditing matters. To accomplish its stated purpose, the Office is led by the CA and three Deputy Chief Accountants, organized into three operational groups: (1) Accounting, (2) Professional Practice, and (3) International Affairs (USSEC, 2014).

The CA and OCA staff work closely with domestic (FASB) and international (IASB) private-sector accounting and auditing (PCAOB) standards-setting bodies, consult with registrants, auditors, and other SEC staff regarding the application of accounting standards and financial disclosure requirements, and assist in addressing problems that may warrant enforcement actions (USSEC, 2012). In addition, the CA and OCA staff participates, usually as observers, in meetings of advisory and other standard-setting groups, such as the FASB's Emerging Issues Task Force (EITF) (USSEC, 2014).

The SEC serves in an oversight capacity to the FASB.¹ This oversight role of the FASB is primarily carried out by the OCA and its Chief Accountant. While the Commission has the statutory authority to set accounting principles, the SEC has relied on an independent, private sector standards-setting process that is transparent and deliberate, as overseen by the SEC. On April 25, 1938, the Commission "gave indirect, de facto recognition to the Committee on Accounting Procedure ("CAP") of the American Institute of Accountants (the predecessor of the AICPA)" (Turner, 2000, p. 2), by means of its Accounting Series Release No. 4 (ASR) (USSEC, 1938). In 1973, the SEC looked to the FASB, via

¹ When the FASB was formed in 1973, the FASB included seven members, with a super majority (5-2) voting requirement. Its voting requirement was changed to a simple majority (4-3), effective June 1977, which was subsequently changed back to a super majority (5-2), effective January 1991. The Board was reduced to five members, effective July 1, 2008, with a simple majority (3-2) voting requirement, but the Board was subsequently increased to its original seven members, effective February 28, 2011, with a simple majority (4-3) voting requirement. Critics of the super majority voting requirement argued that the need for five votes resulted in a lack of accounting guidance in certain controversial or complex areas, as the FASB was unable to gather a sufficient number of votes. Other critics argued that in an effort to obtain five votes, the FASB has compromised on certain aspects of a standard (Herdman, 2002b).

its ASR No. 150 (USSEC, 1973). The FASB's standards were designated as the primary level of generally accepted accounting principles (GAAP) (Ruder, 1989).

Section 108 of the Sarbanes-Oxley Act of 2002 (SOX) (USHR, 2002) established the recognition of accounting standards as 'generally accepted' and the criteria of what qualifies as 'a standard setting body.' On April 25, 2003, the SEC issued its Financial Reporting Release No. 70 (FRR), reaffirming the status of the FASB as a designated private-sector standard setter (USSEC, 2003b). In addition, the SEC has regulatory authority to provide input into the FASB's agenda, as well as to make recommendations for improving the efficiency and effectiveness of the FASB's processes. Notwithstanding FRR No. 70 (USSEC, 2003b), Section 108 of the Act does not restrict the SEC's ability to develop accounting principles on its own, and it does not limit the number of private-sector bodies the SEC may recognize; instead, the SEC's typical standard-setting activity is one of oversight, rather than the drafting of new accounting standards.

CHIEF ACCOUNTANTS AND ACTING CHIEF ACCOUNTANTS (JUNE 1995 – OCTOBER 2005)

During the 20-year period, ten individuals have served as chief accountant or acting chief accountant across 13 tenure periods. Eight individuals have served as chief accountant, while four individuals have served as acting chief accountant across five tenure periods (Mr. Taub served as Acting Chief during two different periods). Exhibit 2 (USSEC, 2015) summarizes the U.S. presidents that nominated the SEC chairs, the chairmen that selected the chief accountants and the chief accountants (and acting chiefs) that served across the 20-year period (June 1995–December 2015) (USSEC, 2015).

Exhibit 2 U.S. Securities and Exchange Commission U.S. Presidential Appointments of U.S. SEC Chairmen (Acting) and Chairmen Appointments of SEC Chief (Acting) Accountant June 1995–December 2015						
President	Chairman	Served		Chief Accountant	Served	
		From	To		From	To
William J. Clinton (1993 – 2001)	Arthur Levitt, Jr.	07/27/93	02/09/01	Michael H. Sutton	06/01/95	01/31/98
	Arthur Levitt, Jr.	07/27/93	02/09/01	Vacant	02/01/98	06/30/98
	Arthur Levitt, Jr.	07/27/93	02/09/01	Lynn E. Turner	07/01/98	08/31/01
George W. Bush (2001 – 2009)	Laura S. Unger (Acting)	02/12/01	08/02/01			
George W. Bush (2001 – 2009)	Harvey L. Pitt	08/03/01	02/17/03	Vacant	09/01/01	10/07/01
	Harvey L. Pitt	08/03/01	02/17/03	Robert K. Herdman	10/08/01	11/08/02
	Harvey L. Pitt	08/03/01	02/17/03	Jackson M. Day (Acting)	11/12/02	05/09/03
George W. Bush (2001 – 2009)	William H. Donaldson	02/18/03	06/30/05	Scott A. Taub (Acting)	05/12/03	09/26/03
	William H. Donaldson	02/18/03	06/30/05	Donald T. Nicolaisen	09/29/03	10/31/05
	Vacant	07/01/05	08/03/05			
George W. Bush (2001 – 2009)	Christopher Cox	08/03/05	01/20/09	Scott A. Taub (Acting)	11/01/05	08/17/06
	Christopher Cox	08/03/05	01/20/09	Conrad W. Hewitt	08/18/06	01/05/09
	Christopher Cox	08/03/05	01/20/09	James L. Kroeker (Acting)	01/06/09	08/24/09
Barack H. Obama II (2009 –)	Mary L. Schapiro	01/27/09	12/14/12	James L. Kroeker	08/25/09	07/13/12
	Mary L. Schapiro	01/27/09	12/14/12	Paul A. Beswick (Acting)	07/16/12	12/20/12
Barack H. Obama II (2009 –)	Elisse B. Walter	12/15/12	04/09/13	Paul A. Beswick	12/21/12	10/03/14
Barack H. Obama II (2009 –)	Mary Jo White	04/10/13		James V. Schnurr	10/06/14	

While some individuals serving as acting chief accountant may not have worked on activities directly related to international accounting standards during their term; all individuals that held the position of chief accountant or acting chief accountant are included in order to provide a complete timeline of the 20-year period being reviewed.

Michael H. Sutton (June 1995 – January 1998)

Appointed by Chairman Levitt, Michael H. Sutton became the chief accountant in June 1995 (USSEC, 1995).

Sutton believed in participating in and influencing the outcome of the international standard setting efforts. He sought opportunities to harmonize U.S. accounting standards with those developed internationally, without sacrificing the quality of U.S. financial reporting and disclosures (Sutton, 1996).

In 1993, the International Organization of Securities Commissions (IOSCO), of which the SEC was a member, wrote to the IASC detailing the particulars of a core set of standards that

would make up a comprehensive body of accounting principles for cross-border offerings (Sutton, 1996).

In 1994, the IASC completed a comparability and improvements project. A number of IASC standards served to codify existing practice across many jurisdictions, permitting several alternative treatments for a single transaction. To that end, many alternatives were eliminated, but in a few areas, the IASC standard designated both a benchmark and an alternative treatment. Also in 1994, the IOSCO reviewed the IASC standards, as amended and identified 14 standards that would be considered acceptable core standards, with only minor modifications and some standards that would require more significant modifications. Final endorsement of the IASC standards for use in cross-border offerings would be dependent on IOSCO's assessment of the package of core standards, when completed (Sutton, 1996).

In July 1995, the IOSCO and the IASC agreed on the IASC's 'proposed work program' that, if successfully completed, would comprise the comprehensive core set of standards. When the resulting core standards were deemed acceptable by the IOSCO's Technical Committee, which the U.S. was a member, it would recommend endorsement of IASC standards for cross-border transactions (raising capital and listing purposes) (Sutton, 1996); albeit, this did not occur.

On April 11, 1996, the Commission released a statement in support of the efforts of IOSCO and the IASC (USSEC, 1996). The SEC indicated that, if the IASC successfully completed the agreed-upon work plan, it would consider accepting the core standards in securities offerings by foreign issuers in the United States. The statement identified three key elements that, in the Commission's view, were necessary for the standards to gain that acceptance (Sutton, 1997):

1. A core set of standards that constitute a comprehensive generally accepted basis of accounting;

2. Standards of high quality that result in comparability and transparency and provide for full disclosure; and
3. Rigorous interpretation and application of the accounting standards.

Sutton (1996) urged the IASC to pursue more robust accounting standards for cross-border listings. Upon successful completion of the core standards based on its three elements, the SEC's intention was to consider allowing foreign private issuers to use the IASC standards in offering securities in the U.S. (Sutton, 1996); albeit, the SEC made it clear to IASC that its decision to accept the core standards would be based on the substance and quality of those standards. Sutton was committed to the intention that in order to be accepted in U.S. markets, IASC standards would have to result in the same high-quality standards that would be produced under U.S. GAAP (Sutton, 1996).

Chairman Levitt (Levitt, 1996) also stressed the SEC's strong support of the harmonization initiative for cross-border offerings, provided that "it does not in any way undermine the Commission's most basic mandate of investor protection" (p. 2). Chairman Levitt (1996) further stressed that if the IASC standards are to be accepted by the international community, "auditors and regulators around the world must insist on rigorous interpretation and application of the standards" (Levitt 1996, p. 3).

Chairman Levitt argued that when the SEC issued its statement of support, "it recognized the significance of the challenge the IASC has shouldered" (Levitt, 1996, p. 3). He emphasized, however, that a second, but equally important message in the statement may not have been heard or may have been lost in translation; albeit, Chairman Levitt concluded it was worth repeating; "that acceptance of IASC standards by the SEC is not a foregone conclusion. The decision regarding acceptance of IASC standards will be made after the core standards are completed, based on the substance of those standards" (Levitt,

1996, p. 3). Chairman Levitt (1996) underscored that the acceptance of IASC standards by U.S. investors "will depend on how well those standards measure up to our own" (Levitt, 1996, p. 3).

In December 1997, Mr. Sutton announced that he would depart the SEC in January 1998.² Chairman Levitt stated that Sutton's work, "especially on international accounting standards, derivatives, and auditor independence, will be long lasting" (USSEC, 1997).

Lynn E. Turner, Chief Accountant (July 1998 – August 2001)

Chairman Arthur Levitt appointed Lynn Turner as the Chief Accountant to succeed Mr. Sutton, effective 1 July 1998 (USSEC, 1998).

On September 28, 1999, the SEC revised its disclosure requirements for foreign private issuers to conform to the international disclosure standards endorsed by IOSCO in September 1998. The international disclosure standards replaced most of the non-financial statement disclosure requirements of Form 20-F, the basic disclosure document for foreign private issuers. In addition, the definition of "foreign private issuer" was revised to provide clearer guidance on how foreign companies should determine whether their shareholders are U.S. residents. While some disclosure items were modified, Items 17 and 18 of Form 20-F were retained in substance and were not renumbered; these items explain the financial statement requirements for registration statements and reports and the different types of reconciliation to U.S. GAAP that must be provided by issuers who prepare financial statements using accounting principles other than

² According to the SEC's Division of Public Relations, an acting chief accountant was not formally appointed to replace Sutton when he ended his term as chief accountant in mid-January 1998 (Roybark, interview with subject, 19 November 1999). However, Jane B. Adams, who was appointed deputy chief accountant by Mr. Sutton, spoke on behalf of the OCA from the time Mr. Sutton left the SEC until Mr. Turner assumed the position of chief accountant in July 1998.

U.S. GAAP. Note that the text of old Item 18 was largely the same as the text of old Item 17; so the revisions to Item 18 eliminate the redundant text and highlight the differences, but were not intended to change any substantive requirements of that Item. In short, the 20-F reconciliation requirement for foreign private issuers remained the same (USSEC, 1999a).

Two problems associated with the IASC accounting standards were that they contained too many options and the standards were not founded on a conceptual framework, and by 1998, concerns were being voiced about the IASC's infrastructure [part-time body (full-time technical staff consisting of one secretary and two research assistants), voluntary funding, non-enforceable standards across different legal jurisdictions, etc.). Like the European Commission (EC), the SEC believed that the IASC should be restructured. The EC sought a large representative part-time body; but having the benefit of the FASB model for evaluating an appropriate accounting standard-setting body, the SEC maintained that the IASC's structure should be configured as a small, independent, full-time body, with its members chosen for their technical expertise, rather than proportionality or geographic origin (Camfferman and Zeff, 2015).

Chairman Arthur Levitt, a key member of the IOSCO and Chief Accountant Lynn Turner lead the charge for the restructuring of the IASC. The United States held two important cards over the EC. First, the United States was a key member on the IOSCO, but more importantly, the IASC understood that the removal of the 20-F reconciliation requirement and the SEC's recognition of IASC standards were critical to the broader use of the IASC standards for cross-border transactions and validation of the IASC as the global accounting standard-setting body. By late 1999, Chief Accountant Lynn Turner made it abundantly clear that if the IASC were to reject the SEC's restructuring model, that it would lose the support of the Commission. Subsequently, at its November 1999 meeting, the IASC delegates voted for a structure and composition that

aligned with the SEC's restructure model (Camfferman and Zeff, 2015).

Chief Accountant Lynn Turner praised the IASC's and its proposed restructuring model. Mr. Turner stated (USSEC, 1999b, p. 1):

This proposal balances calls for a structure based upon geographic representativeness and those based on technical competence and independence. The proposal recognizes the need for Board members to be selected based on expertise, so that the Board can have the best possible combination of technical skills and relevant experience. Representativeness would be provided by the geographic distribution of the Trustees, who are essential to ensuring the effectiveness and independence of the Board.

On November 30, 1999, the IASC formally published its restructuring plan. It called for an independent board whose members were to be selected based on technical expertise, with oversight provided by an independent set of Trustees (IASC, 1999). Subsequently, the restructuring model was confirmed at the IASC's December 1999 meeting. A constitution for the new independent body was drafted, and on April 1, 2001, the successor of the IASC, the International Accounting Standards Board (IASB), was founded (Camfferman and Zeff, 2015).

On February 16, 2000, the SEC issued a concept release for public comment (USSEC, 2000). It validated the IASC's restructure design, but also enumerated a list of further reforms required, before the SEC would allow foreign private issuers to use IASC GAAP, with the elimination of the Form F-20 reconciliation by foreign private issuers. The public comment period ended on May 23, 2000 (USSEC, 2000).

Turner left the Commission at the end of August 2001 to join the faculty at Colorado State University and serve as the

director of the Center for Quality Financial Reporting (USSEC, 2001a).³

Robert K. Herdman, Chief Accountant (October 8, 2001 – November 8, 2002)

Chairman Harvey Pitt recruited Robert K. Herdman, to serve as the Chief Accountant, effective October 8, 2001. Two charges were given to Herdman: (1) to lead the SEC "in revising and modernizing our accounting and financial disclosure system" (p. 1) and (2) to serve as the SEC's "principal advisor in developing the U.S.'s policy on international accounting standards" (USSEC, 2001b, p. 1).

After enactment of the SOX (USHR, 2002), the SEC reaffirmed its recognition of the financial accounting and reporting standards of the FASB as "generally accepted" for purposes of the federal securities laws. One of the criteria that Congress required the SEC to consider, when recognizing an accounting standard setter, was whether that standard setter considers international convergence on high-quality accounting standards as necessary or appropriate in the public interest and for the protection of investors [USHR, 2002 (Section 108)]. The U.S. Congress again had entered the international accounting standards debate.

In his comments delivered before the 2001 AICPA National Conference, Herdman (2001, p. 7) stated:

Another issue facing standard-setters is the need for convergence of domestic and international accounting standards. Converging accounting standards is critical to a continued, efficient expansion of our global capital markets. Standard-setters should be cognizant of the effects on international accounting as they carry out their activities in the future, and I hope that

³ Lynn Turner's tenure ended on August 31, 2001. The position was vacant from September 1, 2001 through October 7, 2001.

convergence becomes a more near-term objective. Time does not permit a full discussion of my views on international accounting today, but it will be a major focus for the Chief Accountant's Office.

In September 2002, the FASB and the IASB began a formal process to converge U.S. GAAP and IASB GAAP. On September 18, 2002 (FASB, 2002), the two boards announced the issuance of their 'Memorandum of Understanding' (MoU), known as the Norwalk Agreement, to collaborate on the development of common, high-quality standards with the ultimate goal of a single set of high-quality global accounting standards. Herdman argued that (Herdman, 2002a, p. 5):

... there is a critical need to focus on convergence, not as a long-term goal, but rather a short-term one. In order to do so, the FASB and the IASB have to work together more closely than they have to date. The SEC has encouraged both the IASB and the FASB to re-examine their agendas in order to speed up their convergence efforts. The desire to eliminate reconciliation items is greater than ever.

That charge was driven by the EU's (European Union) change in its financial reporting infrastructure. On the regulatory side, the EC had issued a regulation requiring the use of International Accounting Standards [(IAS) or the subsequent name, International Financial Reporting Standards (IFRS)] by all EU companies (Herdman, April 18, 2002). In short, this meant (Herdman, 2002a, p. 4):

... that by 2005, approximately 7,000 publicly listed EU companies would be required to prepare financial statements in accordance with IAS. That is a

monumental leap from the roughly 350 listed companies in Europe that currently use IAS.

... The EC's proposal will significantly change the landscape of financial reporting in Europe and has served as a catalyst in bringing increased attention to the work of the IASB. Because of the ramifications of having most European issuers using a single set of accounting standards by a specific date, the 2005 deadline provides an inviting target date for the SEC staff to bear in mind as we consider potential changes to the disclosure requirements for foreign issuers. If by 2005 there has been sufficient progress in the development of the financial reporting infrastructure and short-term convergence of accounting standards, then I believe the SEC should consider the question of whether foreign private issuers from EU member countries should be required to continue to reconcile from IAS to U.S. GAAP.

On November 8, 2002, Mr. Herdman resigned as the SEC's Chief Accountant (Countryman, (2002).

Jackson M. Day, Acting Chief Accountant (November 12, 2002 – May 9, 2003)

On November 12, 2002, Chairman Harvey Pitt announced that Jackson M. Day was selected to serve as Acting Chief Accountant. He had served as Deputy Chief Accountant, since September 2000 (USSEC, 2002). While serving as the SEC's Acting Chief Accountant, Mr. Day also served as Chair of the IOSCO's Standing Committee No. 1 (USSEC, 2003a). This Committee seeks to achieve consistent regulation of accounting, auditing, and disclosure matters around the world.

On March 27, 2003, the SEC announced that Mr. Day would be returning to the private sector. Mr. Day remained at the

SEC as its Acting Chief Accountant until May 9, 2003⁴ to assist in the transition of a new Chief Accountant. (USSEC, 2003a).

Scott A. Taub, Acting Chief Accountant (May 12, 2003 – September 26, 2003)

At Day's departure, William Donaldson appointed Scott A. Taub to serve as Acting Chief Accountant.⁵ Mr. Taub served on the International Financial Reporting Interpretations Committee (IFRIC), the IASB's version of the Emerging Issues Task Force. With Nicolaisen's arrival on September 29, 2003,⁶ Mr. Taub moved to the position of Deputy Chief Accountant for the accounting group.

Donald T. Nicolaisen, Chief Accountant (September 29, 2003 – October 31, 2005)

Appointed by Chairman Donaldson, Donald T. Nicolaisen assumed the position of Chief Accountant on September 29, 2003 (USSEC, 2003c).⁷ Like other chief accountants, Nicolaisen believed in the FASB-IASB convergence project. As early as December 2003, Nicolaisen (December 11, 2003) asserted that he intended to advance the international convergence initiative. He declared (Nicolaisen, 2003, pp. 6 & 4):

To facilitate that effort, I am working with Scott and others at the SEC, and elsewhere, to develop a roadmap, if you will, of the steps necessary for statements prepared using International Accounting Standards (IAS) to be accepted by the Commission. I

⁴ Unpublished correspondence with Scott A. Taub (December 3, 2015).

⁵ Unpublished correspondence with Scott A. Taub (December 3, 2015).

⁶ Unpublished correspondence with Scott A. Taub (December 3, 2015).

⁷ Unpublished correspondence with Scott A. Taub (December 3, 2015).

spent part of my career overseas, and I believe there is much we can learn from standard-setters and professionals outside the U.S. and that our investors will benefit from convergence, as we all work to identify the best standards.

I assure you that I am eager to embrace IFRS because I believe our investors in the U.S. will benefit.

Clearly, Nicolaisen had been thinking about the development of a model for some time. In October 2004, Nicolaisen hired Julie Erhardt as Deputy Chief Accountant. Ms. Erhardt had served as a fellow at the FASB, and subsequently, as an intern at the IASB, so she was keenly-able and eager to work on international issues (USSEC, 2004). With the help of Ms. Erhardt, Nicolaisen developed a model for the removal of the 20-F reconciliation by foreign private issuers. The Nicolaisen model and timeline later would be referred to as the '2005 Roadmap.' Subsequently, the 2005 Roadmap was published in the April 2005 issue of the *Northwestern Journal of International Law and Business* (Nicolaisen, 2005).⁸

Speaking before the 'International Financial Reporting Worldwide Conference' held in London on June 24, 2005, Ms. Erhardt argued that having one set of high quality global accounting standards is a logical goal and that convergence is the tactic to achieving such a goal (Erhardt, 2005).

⁸ In January 2001, Hans-Georg Bruns was a new IASB board member. Mr. Bruns was the chief accounting officer at Daimler-Benz AG, and in 1993, Bruns (Camfferman and Zeff, 2015) "... was in charge of adapting the accounting system at Daimler-Benz AG to US GAAP, when Daimler became the first German company to list on the New York Stock Exchange, and he became a convert to investor-oriented financial reporting. In 1998, he was responsible for the accounting and disclosure activities attendant to the merger between Daimler and Chrysler Corporation. In joining the Board, he had a personal objective of getting rid of the SEC's reconciliation requirement for foreign companies adopting IASs" (Camfferman and Zeff, 2015, p. 30).

Nicolaisen (2004) believed that "...the current process of accounting standard-setting could be improved by focusing more on the underlying objective of the accounting that is being addressed. Similar transactions should receive similar accounting. The IASB and FASB have begun this process. However, further work is needed to clearly identify and articulate the principles or objectives underlying each standard" (p. 2). In addition, objectives-oriented standards must include other attributes such as: a clearly-defined scope, avoidance of scope exceptions, avoidance of bright-line tests, and sufficiently detailed implementation guidance (Nicolaisen, 2004, pp. 2-3).

On September 7, 2005, the SEC announced that Mr. Nicolaisen would leave the SEC in October to return to the private sector (USSEC, 2005a). He left the SEC on October 31, 2005.⁹

Scott A. Taub, Acting Chief Accountant (November 1, 2005 – August 17, 2006)

On November 14, 2005, Chairman Cox appointed Scott A. Taub to serve as the Commission's Acting Chief Accountant for the second time (USSEC, 2005b). He actually served as Acting Chief Accountant starting on November 1.¹⁰ Mr. Taub served as the SEC's Deputy Chief Accountant since arriving at the SEC in September 2002, with the exception of May 2003 to September 2003, when he served as Acting Chief Accountant during the first period as Acting Chief (USSEC, 2005b).

The FASB and the IASB developed a Roadmap of convergence, reaffirming their commitment and best efforts to achieve reporting standards fully compatible as soon as practicable and to validate the objectives set out in the Roadmap. Dated February 27, 2006 (FASB, 2006), the two boards signed the 'Memorandum of Understanding for 2006–2008' entitled 'A

⁹ Unpublished correspondence with Scott A. Taub (December 3, 2015).

¹⁰ Unpublished correspondence with Scott A. Taub (December 3, 2015).

Roadmap for Convergence between IFRS and U.S. GAAP—
2006–2008.'

The 2002 Norwalk Agreement (FASB, 2002) was viewed more as a short-term agreement, while the 2006 Memorandum of Understanding (FASB, 2006) identified a common set of high quality global standards as the long-term goal, with the removal of the 20-F reconciliation requirement by foreign private issuers as a short-term goal. There is no doubt about the priority of the two boards' short-term goal (FASB, 2006, p. 1).

The FASB and the IASB recognise the relevance of the roadmap for the removal of the need for the reconciliation requirement for non-US companies that use IFRSs and are registered in the United States. It has been noted that the removal of this reconciliation requirement would depend on, among other things, the effective implementation of IFRSs in financial statements across companies and jurisdictions, and measurable progress in addressing priority issues on the IASB-FASB convergence programme. Therefore, the ability to meet the objective set out by the roadmap depends upon the efforts and actions of many parties—including companies, auditors, investors, standard-setters and regulators.

The FASB and the IASB recognise that their contribution to achieving the objective regarding reconciliation requirements is continued and measurable progress on the FASB-IASB convergence programme. Both boards have affirmed their commitment to making such progress.

Note that the removal of the 20-F reconciliation only required the boards' "continued and measurable progress" (FASB, 2006, p. 1),

not actual completion or convergence of any specific topics or standards.

The agreement identified ten specific short-term convergence topics including:

- *Four topics to be examined by the FASB*—fair value option, investment properties (as a part of fair value option), research and development, and subsequent events;
- *Four topics to be examined by the IASB*— borrowing costs, government grants, joint ventures, and segment reporting; and
- *Two topics to be examined jointly by both boards*— impairment and income tax.

The goal for the short-term convergence projects was for the two boards to reach a conclusion by 2008 "about whether major differences in the following few focused areas should be eliminated through one or more short-term standard-setting projects and, if so, complete or substantially complete work in those areas" (FASB, 2006, p. 1).

Eleven topics were identified as the long-term core projects. They include: (1) business combinations, (2) consolidations, (3) fair value measurement, (4) liability and equity distinctions, (5) performance reporting, (6) postretirement benefits (including pensions), (7) revenue recognition, (8) derecognition, (9) financial instruments (replacement of existing standards), (10) intangible assets, and (11) leases (FASB, 2006).

Projects 1-7 included topics that were already on an active agenda, while projects 8-11 included topics already being researched, but not yet on an active agenda. The objective of Projects 1-7 was "to provide a time frame for convergence efforts in the context of both the objective of removing the need for IFRS

reconciliation requirements by 2009 and the existing agendas of the FASB and the IASB" (FASB, 2006, p. 3).

On February 27, 2006 (USSEC, 2006a), the SEC issued a statement of support for the FASB-IASB Memorandum of Understanding—2006–2008. The SEC appreciates the two boards' commitment toward improved and converged standards. Chairman Cox emphasized the SEC's continued commitment to the 2005 Roadmap for the removal of the 20-F reconciliation requirement, but achieving such an action will require contributions by the two boards. Mr. Taub, stated that having the two boards "address these issues jointly should further the efforts to converge accounting standards. Investors in the U.S. and around the world will be the long-term beneficiaries of converging toward a common set of high quality accounting standards" (USSEC, 2006a, p. 1).

On August 17, 2006, Taub resumed his duties as 'Deputy Chief Accountant' in the OCA. On November 29, 2006, the SEC announced that Mr. Taub would be leaving the Commission. He left the SEC at the end of January 2007 (USSEC, 2006b).¹¹

CONCLUSION

In Part 1, a brief overview of the SEC and the OCA and its Chief Accountant was presented in Section II and Section III, respectively. In Section IV, the chief accountants (and acting chiefs) that served across the first 11 years (June 1995–August 2006) of the 20-year period that the SEC has actively worked to advance international accounting standards was presented.

The SEC's major initiatives and its actions taken and decisions made relating to international accounting standards during the 20-year period are summarized in Exhibit 3. Note that SEC actions taken through October 31, 2005 are shown on the left

¹¹ After leaving the SEC, Mr. Taub served as a member (representing Financial Reporting Advisors, United States) of the 'International Financial Reporting Interpretations Committee' (IFRIC) from July 2008 to December 2009 and the 'IFRS Interpretations Committee' from January 2010 to June 2014. Note that in January 2010, the IFRIC's name was changed to IFRS Interpretations Committee (Camfferman and Zeff, 2015).

side of the exhibit, while SEC actions taken thereafter are presented on the right side of the exhibit.

Note that Part 2 will begin on August 18, 2006, at the start of Mr. Hewitt's tenure.

Exhibit 3 Summary of U.S. Securities and Exchange Commission Actions and Decisions Relating to International Accounting Standards June 1995–December 2015	
Part 1 (June 1995–October 31, 2005)	Part 2 (November 1, 2005–December 31, 2015)
SEC issues a policy statement of support (Release No. 33-6807) for establishing mutually acceptable international accounting standards (<i>Nov 14, 1988</i>)	SEC Approves Nicolaisen's '2005 Roadmap' and issues its 'Proposed Rule Nos. 33-8818 & 34-55998' to eliminate 20-F Reconciliation by 'Foreign Private Issuers' (<i>Jul 2, 2007, Hewitt</i>)
IOSCO and IASC agree on IASC's 'proposed work program' for core set of standards (<i>Jul 1995, Sutton</i>)	SEC issues its 'Concept Release Nos. 33-8831A & 34-56217A' to permit 'Domestic (U.S.) Issuers' to use IFRS (IASB) (<i>Aug 7, 2007, Hewitt</i>)
SEC issues a Press Release 96-61, to communicate its statement of support upon completion of three key elements (<i>Apr 11, 1996, Sutton</i>)	SEC issues its 'Final Rule Nos. 33-8879 & 34-57026 to remove 20-F reconciliation requirement by 'Foreign Private Issuers' that use IFRS (IASB) (<i>Dec 21, 2007, Hewitt</i>)
IASC disclosure standards endorsed by IOSCO (<i>Sep 1998, Turner</i>)	SEC approves '2008 Roadmap' and issues its 'Proposed Rule Nos. 33-8982 & 34-58960' for mandatory use of IFRS (IASB) by 'Domestic (U.S.) Issuers' (Approved Aug 27, 2008 & Published Nov 14, 2008, Hewitt). Note that CR was amended (Nos. 33-9005 & 34-59350) to extend comment period (Feb 3, 2009, Hewitt)
SEC issues its Final Rule Nos. 33-7745 & 34-41936' for foreign private issuers as endorsed by IOSCO (<i>Sep 28, 1999, Turner</i>)	SEC Takes No Action on the '2008 Roadmap' and its Proposed Rule for IFRS (IASB) by 'U.S. Issuers' (Aug 28, 2008 – Oct 2009)
SEC presents its model for restructuring IASC (<i>Fall 1999, Turner</i>)	Chairman Schapiro directs OCA to develop Work Plan for use of IFRS by 'Domestic (U.S.) Issuers' (Feb 2010, Kroeker)
IASC approves the SEC's model for restructuring IASC (<i>Dec 1999, Turner</i>)	OCA delivers its '2010 Work Plan' entitled "Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers" and the SEC issues its 'Commission Statement Nos. 33-9109 & 34-61578 to publish the '2010 Work Plan' and to communicate its continued support of the FASB-IASB convergence project (<i>Feb 24, 2010, Kroeker</i>)
SEC issues its 'Concept Release Nos. 33-7801 & 34-42430' to validate the IASC's restructuring model and list further reforms required for removal of Form 20-F by 'Foreign Private Issuers' (<i>Feb 16, 2000, Turner</i>)	Over the next 15 months, the OCA issues a series of updates and reports on the '2010 Work Plan' (<i>Oct 29, 2010–Feb 9, 2012, Kroeker & Beswick</i>)
IASB is formed (successor of IASC) (<i>Apr 1, 2001, Turner</i>)	OCA issues its 'Final Staff Report' on the '2010 Work Plan' initiative, but the report includes no recommendations (<i>Jul 13, 2012, Kroeker</i>)
SEC Supports the FASB-IASB's Convergence Project and '2002 Norwalk Agreement' (<i>Sep 18, 2002, Herdman</i>)	SEC takes <u>No Action</u> on the '2010 Work Plan,' its updates, interim reports, or the final report (<i>Jul 14, 2012–Dec 31, 2015, Beswick & Schnurr</i>)
CA Nicolaisen publishes '2005 Roadmap' to eliminate 20-F for 'Foreign Private Issuers' (<i>Apr 2005</i>)	
SEC Supports the FASB-IASB's Convergence Project and '2006 MoU' (<i>Feb 27, 2006, Taub</i>)	

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