# DEVELOPING INTERNATIONAL ACCOUNTING STANDARDS—THE SEC'S 20-YEAR JOURNEY (JUNE 1995–DECEMBER 2015): PART 2 (AUGUST 2006–DECEMBER 2015)

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

**The SEC has a unique position out on the front line by virtue of its legislative authority, regulatory review and enforcement activities. Through its oversight role, the SEC has the ability to interact with the various standard setters, which may be especially important if they start heading in divergent directions. This coordination is particularly important as we work towards global convergence of accounting standards (Herdman, 2001).**

***Robert K. Herdman***
***SEC Chief Accountant***
***October 2001–November 2002***

## INTRODUCTION

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.

This is Part 2 of a two-part series. In Part 1, a brief overview of the SEC and the OCA and its Chief Accountant was presented, along with a comprehensive review of the chief accountants (and acting chiefs) that served across the first 10 years (June 1995–October 2005) of the 20-year period (1995-2015). Part 1 covered June 1995 to August 17, 2006 (Mr. Sutton to Mr. Taub), 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)**

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|---|---|---|---|---|---|---|
| ***Part 1: [Sutton—Taub (June 1995–August 2006)]*** | | | | | | |
| Sutton | Turner | Herdman | Day (A) | Taub (A) | Nicolaisen | Taub (A) |
| Jun 95–Jan 98 | | | | | | |
| | Jul 98–Aug 01 | | | | | |
| | | Oct 01–Nov 02 | | | | |
| | | | Nov 02–May 03 | | | |
| | | | | May 03–Sep 03 | | |
| | | | | | Sep 03–Oct 05 | |
| | | | | | | Nov 05–Aug 06 |
| ***→ Part 2: [Hewitt—Schnurr (August 2006–December 2015)]*** | | | | | | |
| Hewitt | Kroeker (A) | Kroeker | Beswick (A) | Beswick | Beswick | |
| Aug 06–Jan 09 | | | | | | |
| | Jan 09–Aug 09 | | | | | |
| | | Aug 09–Jul 12 | | | | |
| | | | Jul 12–Dec 12 | | | |
| | | | | Dec 12–Oct 14 | | |
| | | | | | Oct 14–Dec 15 | |

Section II of Part 2 begins on August 18, 2006, at the start of Mr. Hewitt's tenure. Section III presents a summary, analysis, and concluding observations.

## CHIEF ACCOUNTANTS & ACTING CHIEF ACCOUNTANTS (NOVEMBER 2005 – DECEMBER 2015)

### Conrad W. Hewitt, Chief Accountant (August 18, 2006 – January 5, 2009)

Chairman Cox appointed Conrad W. Hewitt as the SEC's Chief Accountant. He began his duties on August 18, 2006 (USSEC, 2006b).

Hewitt (2006) argued that the 2005 roadmap developed by former Chief Accountant Nicolaisen "is very important because it considers the efficiency of the US capital markets and the effects on investors, and lowers costs to issuers relative to the current reconciliation requirements. The SEC staff is reviewing the foreign registrant's financial statements, which will help us better understand the differences and application of IRFS" (Hewitt, 2006, p. 4). Hewitt (2008a) noted that, he "inherited the roadmap created by my predecessor, Don Nicolaisen. I reviewed and studied it. I did not have to continue it. However I have always believed in international business and accounting" (p. 3).

On March 6, 2007, the SEC hosted a Roundtable to discuss Nicolaisen's 2005 roadmap and the potential of allowing foreign private issuers to use IFRS (IASB), without the 20-F reconciliation (USSEC, 2007a). Chairman Cox outlined the SEC's support of international accounting standards to understand the past in order to set the stage for evaluating the 2005 roadmap. Cox stated (USSEC, 2007b, p. 11):

> Once it was unveiled, the roadmap took on a life of its own. Governments, regulators, and standard setters around the world have been relying on it to determine their actions. We are committed to this process, and we are not looking back.

The Roundtable was aimed at assessing the impact of the co-existence of two sets of accounting standards on the U.S. markets (U.S. GAAP and IFRS GAAP). Key participants in the capital-raising process included issuers, accountants, investors, credit rating agencies, investment bankers, and lawyers (Cox, 2007). They evaluated whether the benefits of eliminating the 20-F reconciliation requirement (to U.S. GAAP) for foreign private issuers were, in fact, achievable in practice. Chairman Cox asserted that "their responses were resoundingly positive" (Cox, 2007, p. 5).

Nicolaisen also attended the '2005 roadmap' roundtable. He stated (USSEC, 2007b, pp. 180 & 181):

> The use of IFRS and the acceptance of it around the globe is overwhelming. If you think about looking ahead a number of years, what is more likely to be accepted broadly around the globe -- would it be IFRS or U.S. GAAP -- I think it's clear that it's going to be IFRS. And so a secondary question and one that we alluded to early on in the paper is, really, what happens, post elimination of the reconciliation, with U.S. companies? Is there some point in time where IFRS ought to be the law of the land in the United States, as well as elsewhere? The desirability of having one set of standards around the globe is so overwhelming that I just -- I think that is likely to happen.
>
> And I really would encourage the Commission to think about eliminating it earlier than 2009.

In short, Nicolaisen stated that he believed IFRS would be used by U.S. issuers, but he noted that such a change should be mandatory, not voluntary (USSEC, 2007b, p. 84). Perhaps one of the underlying explanations for the push to allow foreign private issuers to use IFRS (IASB), without reconciliation, may have been revealed by Hewitt while delivering remarks at Baruch College (Hewitt, 2007a, p. 3):

> Receiving feedback from such a diverse group of constituents at the Roundtable on these important issues was extremely valuable to me. Each of the panelists had clearly thought deeply about international convergence and the ramifications of dropping the reconciliation requirements. Panelists observed that, while progress is being made by the FASB and IASB on the convergence of US GAAP and IFRS, removal of the reconciliation requirement in the near term may well mean that IFRS and US GAAP co-exist in the US capital markets for some period of time. Many of the panelists expressed a willingness to accept co-existence. However, it was also clear to me that many of the panelists see the ultimate endgame as one set of global standards that allow investors to compare companies around the world on an apples-to-apples basis.
>
> In order to accomplish this objective, I encourage the FASB and IASB to continue expending their collective efforts to converge the two sets of standards. Difficult choices will need to be made, and at times it may be necessary for the two Boards to compromise on a reasonable converged solution rather than delaying in the hope that perfection can be achieved. Because the benefits to investors are expected to be enormous, all of this hard work toward convergence is well worth the effort.

Published in April 2005, Nicolaisen's 2005 roadmap for 'IFRS by foreign registrants' called for the determination of whether and when to allow foreign registrants to use IFRS (IASB), without reconciliation, in 2009, or possibly sooner. While Chairman Cox had not endorsed Nicolaisen's 2005 roadmap until February 2006, on April 24, 2007, the SEC announced its next steps relating to the 2005 roadmap. As quoted (USSEC, 2007c, p. 1):

> "The next steps that the Commission is announcing today will keep us on course with the Roadmap announced in 2005," said SEC Chairman Christopher Cox. Pending public comments on the proposal, "we remain on track to eliminate reconciliation by 2009," Cox added.

Another explanation for the SEC's push for eliminating the 20-F reconciliation was that the EU had adopted a filing requirement that companies wishing to access EU markets which continue to use U.S. GAAP after 2004 would be required to prepare a reconciliation similar to the U.S. 20-F reconciliation. One might speculate that such an action by the EU was nothing more than payback for the SEC's inaction on the removal of its 20-F reconciliation requirement for foreign private issuers. That would not seem to be the case, however, as Japan, Canada, and the United States were granted an unconditional extension of the reconciliation requirement until January 1, 2009 to match the forecasted date for the lifting of the U.S. 20-F reconciliation (as specified in the 2005 Roadmap). In December 2008, U.S. GAAP was recognized as equivalent with IFRSs as adopted in the EU, without any time limit (Camfferman and Zeff, 2015). Such a one-sided stance might be explained by the prevailing view that U.S. GAAP was viewed as a higher-quality and more robust set of accounting standards, not simply equivalent.

By July 2007, the SEC published a review of the 2005 filings of the foreign private issuers that filed IFRS (IASB) financial statements, which were reconciled to U.S. GAAP (Hewitt and White, 2007, p. 3). According to the SEC (USSEC, 2007e, p. 1):

> In the vast majority of the companies we reviewed, the company's auditor opined on the company's compliance with the jurisdictional version of IFRS that the company used, but did not opine of the company's compliance with IFRS as published by the IASB.

However, the SEC's proposed rule for eliminating the 20-F reconciliation was based on IFRS GAAP (IASB), not jurisdictional IFRS (USSEC, 2007e).

On July 2, 2007, the SEC issued a proposed rule for public comment to allow foreign private issuers to use IFRS (IASB), without reconciliation to U.S. GAAP (USSEC, 2007e). The public comment period ended September 24, 2007. The SEC received approximately 125 comment letters in response to the proposed release. The following commentary summarizes the SEC's observations regarding the proposed rule (USSEC, 2007k):

- The majority of commenters agreed that, overall, the use of high-quality, internationally accepted accounting standards was an important and worthwhile goal (p. 8).

- In general, commenters supporting the proposal, which included many foreign private issuers, accounting firms, legal firms and foreign standard setters, as well as some investors, agreed that IFRS were suitable to be used as a GAAP reconciliation would be perceived as recognition of the adequacy of the convergence process to date and would promote and encourage the ongoing convergence process (pp. 8-9).
- However, the views of several other commenters, including those representing some institutional investors and analysts, were mixed (p. 9).

- While these commenters also expressed the view that IFRS have the potential to fulfill the role of a set of high-quality, international standards at some time in the future, some thought the time was not yet ripe for accepting those financial statements without a U.S. GAAP reconciliation. Among the varying reasons cited by those who believed the time had not yet come were that the convergence process is insufficient to date and adopting the proposal would likely slow, and possibly halt, the convergence process (p. 9).

- Other commenters did think that the time was ripe to accept financial statements prepared in accordance with IFRS as issued by the IASB without a U.S. GAAP reconciliation (p. 9).

- Regarding the effect on information quality if the U.S. GAAP reconciliation was removed, many commenters in support of the proposal stated that the reconciliation information is highly technical and not widely understood. These commenters also generally expressed confidence in the quality of application of IFRS in practice (p. 9).

- On the other hand, commenters that expressed concerns with the proposal supported the usefulness of both the quantitative and qualitative aspects of the U.S. GAAP reconciliation. These commenters cited the presence of significant differences in important line items, such as net income, in the U.S. GAAP reconciliations of many foreign private issuers as evidence that the convergence process is not sufficiently complete. In their view, such differences would be more difficult to discern without the U.S. GAAP reconciliation (p. 9).

- They also asserted that the U.S. GAAP reconciliation is helpful to financial statement quality, and they advocated further cross-jurisdictional structural and enforcement efforts regarding IFRS, including efforts to strengthen governance of the IASB and funding of the International Accounting Standards Committee ("IASC") Foundation, the stand-alone organization responsible for overseeing the activities of the IASB (pp. 9-10).

- Many commenters that supported the proposal also urged the Commission to make amendments that go further than those we proposed. These commenters suggested that the Commission also accept from foreign private issuers financial statements prepared using jurisdictional adaptations of IFRS without a U.S. GAAP reconciliation, jurisdictional adaptations of IFRS with a reconciliation to IFRS as issued by the IASB, or any home country GAAP with a reconciliation to IFRS as issued by the IASB (p. 10).

By December 21, 2007, the SEC issued its Final Rule (USSEC, 2007k) to allow foreign private issuers to use IFRS without reconciliation. What Chairman Cox, Mr. Nicolaisen, and Mr. Hewitt had pushed so hard to achieve finally had been realized—it was now a done deal!

On August 7, 2007, only one month after the Commission had issued its proposed rule for foreign private issuers to use IFRS without reconciliation, the SEC issued its concept release for public comment to allow the use of IFRS (IASB) by domestic issuers (USSEC, 2007g). Public comments were due by November 13, 2007. A total of 102 comment letters were received. In their comment letter of November 7, 2007 on the SEC's Concepts Release entitled *Allowing U.S. Issuers to Prepare Financial*

*Statements in Accordance with International Financial Reporting Standards*, the FAR (as signed by Robert Denham, Chairman) and the FASB (as signed by Robert Herz, Chairman) wrote (FAF, 2007, p. 2):

> Investors would be better served if all U.S. public companies used accounting standards promulgated by a single global standard setter as the basis for preparing their financial reports. This would be best accomplished by moving U.S. public companies to an improved version of International Financial Reporting Standards (IFRS). We believe permitting extended periods of choice between U.S. Generally Accepted Accounting Principles (GAAP) and IFRS results in a two-GAAP system that creates unnecessary complexity for investors and other users of financial information. Permitting choice would add to the overall complexity of our reporting system.

Two roundtables were held in December 2007 to discuss the possibility of U.S. registrants using IFRS (USSEC, 2007h). Moderated by James Kroeker, Deputy Chief Accountant in the OCA, the first roundtable was held on December 13, 2007 and focused on whether U.S. registrants should be permitted to report their financial statements using IFRS GAAP (IASB), rather than U.S. GAAP (USSEC, 2007i). Moderated by Mr. Hewitt, the second roundtable was held on December 17, 2007 (USSEC, 2007j) and focused on the practical issues related to the possible future use of IFRS by U.S. issuers and the mechanics of making such a transition successful.[1] Three possible options emerged: (1) U.S.

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[1] A third roundtable session, moderated by Mr. Hewitt, was held on August 4, 2008 to discuss the performance of IFRS and U.S. GAAP during the subprime crisis (USSEC, 2008a).

registrants be allowed to voluntarily use IFRS (IASB) for an indeterminate period, (2) set a fixed date in the future for the mandatory use of IFRS (IASB), and (3) a wait-and-see approach for completion of the FASB-IFRS project (USSEC, 2007j). On February 8, 2008, Chairman Cox (2008) opined:

> I said at the outset that it is no longer possible for the SEC to do its work in the United States without a truly global strategy — because, in large measure due to today's instant communications and technology, what goes on in other markets and jurisdictions is now intimately bound up with that happens here. That's why the most significant initiatives we expect to complete in 2008 are in the international and technology arena. Mutual recognition, international accounting standards, and interactive disclosure will all be the subjects of important rule proposals that will be presented to the Commission in late spring. And they are all closely interrelated (pp. 10-11).
>
> The same imperatives of ever-faster communications, ever-more-closely linked markets, and truly global competition for capital that underlie our conceptualization of mutual recognition have for several years been driving the project to converge the world's two great accounting systems — U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. Because of the significant progress that has been made in developing IFRS as a high-quality accounting standard — and in light of its rapid and growing acceptance around the world — the Commission last year voted unanimously to take the next step on the SEC's "roadmap" announced three years ago. As a result, foreign issuers can now file their financial statements with the SEC

> using IFRS, without need of keeping a second set of books under U.S. GAAP (p. 11).

On August 27, 2008, the SEC held an open meeting to evaluate and vote on the 2008 Roadmap that, if approved, could lead to the use of IFRS by domestic issuers beginning in 2014. Chairman Christopher Cox noted that (USSEC, 2008d, p. 1):

> An international language of disclosure and transparency is a goal worth pursuing on behalf of investors who seek comparable financial information to make well-informed investment decisions

Specifically, the agenda of the August 27 meeting included Item 4 entitled 'Roadmap for the Potential Use of Financial Statements Prepared in accordance with International Financial Reporting Standards from U.S. Issuers' (USSEC, 2008b). The Division of Corporation Finance and the Office of the Chief Accountant presented the 2008 proposed Roadmap. Opening statements were provided by Conrad Hewitt, Chief Accountant, Office of the Chief Accountant, John White, Director, Division of Corporation Finance, and Paul Dudek, Chief, Office of International Corporation Finance.

Hewitt provided the following testimony: "... I wholeheartedly support this recommendation relating to IFRS" [(Hewitt, White, and Dudek, 2008, p. 2) and Item 4, at approximately 1:23 during the August 27, 2008 Webcast (USSEC, 2008c)]. He then offered the following commentary, as paraphrased, regarding the proposed Roadmap to IFRS (IASB) by U.S. issuers on the following subjects: (1) benefits, (2) implementation issues, and (3) barriers and other considerations [see the USSEC August 27, 2008 Webcast (USSEC, 2008c)]:

**Benefits**

Hewitt asserted that subsequent upcoming standards developed, as part of the convergence-project would be "word for word" and "identical," as issued by the two boards (FASB and IASB). He further asserted: "I think it is a good plan" [(Hewitt, White, and Dudek, 2008, p. 2) and Item 4, at approximately 1:23 during the August 27, 2008 Webcast (USSEC, 2008c)].

Hewitt asserted that IASB funding was improving. He alluded to the FASB's recent change in how it is funded, stating that he believed the IASB will be independently funded in the next five years [see August 27, 2008 Webcast (USSEC, 2008c)].

Hewitt reminded Chairman Cox and the other Commissioners about the SEC-FASB initiative to implement and require XBRL tagging. He asserted that XBRL is also being implemented internationally so that other countries' XBRL match and use U.S. tagging taxonomies [see August 27, 2008 Webcast (USSEC, 2008c)].

**Implementation Issues**

Hewitt noted that many companies throughout the world have used reconciliation for first time adopters of IFRS. Hewitt stated that he believed that larger early adopters probably will keep two sets of accounts, if only to provide analysts and others any information that may be needed. He argued that the market may actually demand companies to be prepared and able to switch to IFRS [see August 27, 2008 Webcast (USSEC, 2008c)].

**Barriers and Other Considerations**

Hewitt identified two specific barriers associated with the proposed Roadmap including: (1) the use of LIFO inventory and (2) regulatory references to U.S. GAAP across multiple agencies, noting that the FASB probably would incorporate IFRS references to replace U.S. GAAP references [see August 27, 2008 Webcast (USSEC, 2008c)].

Hewitt argued that U.S. accounting programs will need to incorporate IFRS (IASB) in the curriculum in the next few years. He asserted that the Big-4 accounting firms and some public companies had already had training sessions, noting that it was mostly small companies that have not had at least some training and therefore less prepared for IFRS (IASB). Hewitt lamented that the national CPA examination currently does not include one question relating to IFRS, but he asserted that he had asked the AICPA to include questions for IFRS standards[2] [see August 27, 2008 Webcast (USSEC, 2008c)].

The Commission proposed the 2008 Roadmap towards requiring the use of IFRS as issued by the IASB by U.S. issuers as part of its consideration of the role a single set of high-quality accounting standards plays in investor protection and the efficiency and effectiveness of capital formation and allocation. The 2008 roadmap was a multi-year plan presenting milestones that, if achieved, could lead to the mandatory use of IFRS by all domestic issuers beginning in 2014. Based on the proposed rule, the SEC would decide in 2011 whether adoption of IFRS (IASB) by U.S. registrants would benefit investors and be in the public interest. Conrad Hewitt and John White, Director of Corporate Finance, presented the SEC's Proposed Rule (USSEC, 2008e).

The proposed Roadmap addressed the basis for considering the mandatory use of IFRS by U.S. issuers. It also identified seven milestones which, if achieved, could have lead to the use of IFRS by U.S. issuers in their filings with the SEC. In 2011, the Commission would determine whether to proceed with rulemaking to require that U.S. issuers use IFRS, beginning in 2014 (USSEC, 2008e). The seven milestones related to (III.A., p. 5):

- improvements in accounting standards;
- the accountability and funding of the IASC Foundation;

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[2] In 2011, the AICPA reported that "the Uniform CPA Exam now contains questions related to IFRS" (AICPA, 2011, p. 9).

- the improvement in the ability to use interactive data for IFRS reporting;
- education and training relating to IFRS;
- limited early use of IFRS where this would enhance comparability for U.S. investors;
- the anticipated timing of future rulemaking by the Commission; and
- the implementation of the mandatory use of IFRS by U.S. issuers.

The first four milestones had to be accomplished before the last three could have been achieved (USSEC, 2008e).

Despite the tight turnaround period, the proposed Roadmap included amendments which would permit eligible U.S. issuers to elect to use IFRS beginning with fiscal years ending on or after December 15, 2009 (USSEC, 2008e). Even more troubling was that some of the largest domestic issuers could have elected to use IFRS, while other domestic issuers could have elected to continuing using U.S. GAAP—before the SEC had determined whether adoption of IFRS (IASB) by U.S. registrants would benefit investors and be in the public interest. The proposed Roadmap discusses how IFRS reporting by U.S. issuers may affect other participants in the capital markets. Paul Dudek, Chief, Office of International Corporation Finance noted that the largest 20 companies (based on market capitalization on a global basis) would be eligible to use IFRS. He stated "that approximately 110 U.S. companies in about 34 different industries would be eligible" (Hewitt, White, and Dudek, 2008, p. 3).

As a step along the 2008 Roadmap, the proposal described two amendments (Proposals A and B) to permit a U.S. issuer that is among the largest companies worldwide within its industry, and whose industry uses IFRS as the basis of financial reporting more than any other set of standards, to elect to use IFRS beginning with filings for fiscal years ending on or after December 15, 2009 (USSEC, 2008e; Hewitt, White, and Dudek, 2008). These amendments included a process by which U.S. issuers would seek confirmation from the SEC's staff that they are eligible to use IFRS in their Commission filings. The proposal also sought public comment on the two alternative proposals under which U.S. issuers that elected to use IFRS would disclose U.S. GAAP information. In short, the two proposals (A & B) for eligible early adopters provided two different levels of reconciliation (USSEC, 2008e; Hewitt, White, and Dudek, 2008).

**Proposal A.** Proposal A required first time eligible adopters to reconcile [from U.S. GAAP to IFRS (IASB)] one year of audited information. Under Proposal A, an eligible issuer that elects to file IFRS financial statements may begin to file financial statements prepared in accordance with IFRS for fiscal years ending on or after December 15, 2009. As an example, under this alternative, a U.S. issuer filing an annual report for the year ending December 31, 2009 in accordance with IFRS for the first time would include a reconciliation of its reported equity from U.S. GAAP to IFRS as of January 1, 2007 and December 31, 2008 and a reconciliation for the year ending December 31, 2008 of its reported total comprehensive income. After the initial reconciliation, the issuer would not be required to provide any reconciliation in future filings with the Commission. However, nothing would prevent a U.S. issuer from voluntarily disclosing such U.S. GAAP information to the market that it believes may be useful for investors (USSEC, 2008e; Hewitt, White, and Dudek, 2008).

**Proposal B**. Proposal B was broader and required first time eligible adopters to reconcile [from U.S. GAAP to IFRS (IASB)] three years of unaudited information. Under Proposal B, an eligible issuer that elects to file IFRS financial statements may begin to file financial statements prepared in accordance with IFRS for fiscal years ending on or after December 15, 2009. As an example, under this alternative, a U.S. issuer filing an annual report for the year ending December 31, 2009 in accordance with IFRS for the first time would include, in addition to the one-time reconciliation required under IFRS 1 (as described under Proposal A), the reconciliation from IFRS to U.S. GAAP as of December 31, 2008 and 2009 for balance sheet information and for the three years ending December 31, 2009 for the statements of income (loss) and other annual period financial statements. Thereafter, in each annual report on Form 10-K, the issuer would provide the IFRS to U.S. GAAP reconciliation covering the same three-year period as the audited financial statements included in the Form 10-K (USSEC, 2008e; Hewitt, White, and Dudek, 2008).

At the conclusion of the August 27, 2008 open meeting, the Commissioners unanimously voted to publish the 2008 Roadmap as proposed for public comment [USSEC, 2008c (see August 27, 2008 Webcast)]. Oddly, the 2008 proposed roadmap was not made available to the public until November 14, 2008 (USSEC, 2008e). Public comments were to be received on or before February 19, 2009.[3] Why or what happened behind the scenes from August 27, 2008 when the 2008 Roadmap was approved by the SEC Commissioners and November 14, 2008 when the proposal was released is anyone's guess; albeit, the comment period and extended comment period was based on the release date.

Despite the limited time remaining as the SEC's Chief Accountant, Hewitt went straight to work promoting the 2008 Roadmap. Speaking before the 2008 AICPA National Conference, Hewitt (2008b) argued (p. 2):

> Now, turning to IFRS, I would like to discuss with you an initiative that has an even greater potential to shape the future of this profession. In my opinion, this initiative represents what I believe to be the most

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[3] Note that Release No. 33-8982/34-58960 (USSEC, 2008e) for the 2008 Roadmap was replaced by Release Nos. 33-9005/34-59350 (USSEC, 2009b). The replacement release extended the original comment period on the proposed Roadmap ending February 19, 2009 to April 20, 2009, in order to allow interested parties additional time to analyze the issues and prepare and submit their comments (USSEC, 2009b).

> important accounting policy decision ever made by the Commission. I don't make that statement lightly.

The SEC sought comments on the proposed 2008 roadmap for a number of suggested milestones that the SEC might consider. The Commission received over 200 comment letters on the proposed roadmap from investors, regulators, issuers, accounting, legal, academia, standard setters, and international organizations (USSEC, 2010a):

- Those commenting generally expressed widespread support for the ultimate goal of having a single set of high-quality globally accepted accounting standards, but differed significantly in their views about the proposed approach to achieve further use of IFRS by domestic issuers.

- Some commenters asserted that there were many transition questions and issues arising from the proposed approach that the SEC should consider further.

All of the Big-4 firms approved of the Roadmap. But it was no surprise that these firms would welcome the Roadmap, given that they had provided significant funding to the IASB. In 2012 alone, the Big-4 firms (Deloitte & Touche, Ernst & Young, KPMG, and PricewaterhouseCoopers) each gave $2.25 million to the IFRS Foundation (Burkholder, 2014).

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

In September 2008, the FASB and the IASB issued a progress report and timetable for completion of the February 2006 'Memorandum of Understanding.' The Boards agreed that the goal of joint projects was to produce common, principles-based standards. In short, completion of some the February 2006 milestones were postponed to 2011 (FASB, 2008).

Chairman Cox has been a staunch proponent for the elimination of the 20-F reconciliation by foreign private issuers, which had been achieved in 2007, and the mandatory use of IFRS (IASB) by U.S. issuers. To those ends, Cox had spent much of his regulatory influence and capital, at a time when he was being openly criticized for his handling of the financial crisis and his failure to act on the Madoff debacle during his 3½-year tenure.[4] [5] Cox left the SEC on January 20, 2009, so he would not see the 2008 proposed Roadmap completed. Cox's successor, Mary Schapiro, was as cautious about the 2008 Roadmap as Cox had been committed to it. Chair-Elect Schapiro was quick to disavow the 2008 Roadmap to IFRS. During her Nomination Hearing, she stated "... I have some concerns about the road map that's been published by the SEC and is out for comment now, and I have some concerns about the IFRS standards generally ... So I will tell you that I will take a big deep breath and look at this entire area again carefully and will not necessarily feel bound by the existing road map that's out for comment" (USS, 2009, p. 21). Instead,

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[4] In March 2008, Bear Stearns almost collapsed, and six months later, Lehman failed, setting off a chain reaction that killed dozens of banks and mortgage lenders" (Fitzgerald, 2013, p. 3).

[5] In September 2008, Senator John McCain called for the firing of Chairman Cox. However, the Senator's "choice of words may have been more direct than others – and more misguided, since the president can't technically fire the SEC head" (Kiviat, 2008, p. 1).

Chair Schapiro would opt for a Work Plan, which will be presented in 2010 during Mr. Kroeker's tenure.

In short, while Hewitt had a powerful punch, there would be no knockout when it came to the voluntary or mandatory use of IFRS (IASB) by domestic issuers. Given his uncompromising ambition for the SEC to mandate the use of IFRS (IASB) by domestic issuers, it is unclear whether Hewitt would have tendered his resignation, without the changing of the presidential guard in January 2009. Mr. Hewitt announced that he would be leaving the SEC in January 2009 (USSEC, 2008f). Accordingly, he left the Commission on January 5, 2009, after serving as the SEC's chief accountant for 2½ years (USSEC, 2009a).

**James L. Kroeker, Acting Chief Accountant (January 6, 2009 – August 24, 2009)**

On January 6, 2009, Chairman Cox appointed James L. Kroeker as the Acting Chief Accountant. Mr. Kroeker had been serving as Deputy Chief Accountant since February 2007 (USSEC, 2009a).

**James L. Kroeker, Chief Accountant (August 25, 2009 – July 13, 2012)**

On August 25, 2009, Chair Schapiro announced the appointment of Mr. Kroeker as Chief Accountant (USSEC, 2009c).

The proposed 2008 Roadmap failed to garner sufficient public support. On February 10, 2010, the SEC issued a statement in support of convergence and IFRS. Chair Schapiro directed the OCA to develop and execute a Work Plan relevant to the Commission's determination as to whether, when, and how U.S. issuers should be transitioned to IFRS (IASB). The Work Plan was issued on February 24, 2010 (USSEC, 2010a). Specifically, the Work Plan addressed six areas of concern that had been made by commenters on the SEC's proposed 2008 Roadmap.

On May 21, 2010, Kroeker (2010) testified before the 'Subcommittee on Capital Markets, Insurance, and Government

Sponsored Enterprises of the House Committee on Financial Services.' Kroeker (2010) stated that the execution of such a work plan (USSEC, 2010a) "will involve significant resources throughout the agency" (Kroeker, 2010, p. 6). He stressed that the SEC will provide "... public progress reports beginning no later than October 2010 and frequently thereafter until the work is complete" (Kroeker, 2010, p. 6).

In 2004, the FASB and the IASB launched their conceptual framework initiative. With less than half of the project completed, "the boards suspended work on the joint Conceptual Framework ..." (IFRS Foundation, 2014, p. 2) in November 2010. The explanation given for this action was to enable the boards "... to concentrate on other projects ..." (IFRS Foundation, 2014, p. 2). Subsequently, the two boards would work independently on their own conceptual frameworks (IFRS Foundation, 2014).

On October 29, 2010, the SEC staff issued its first progress report on the status of their efforts in executing the 2010 Work Plan. Based on the preliminary observations, "a very small minority of the largest jurisdictions" (USSEC, 2010b, p. 10) had incorporated IFRS as the mechanism for providing authoritative support for the standards that were followed by a jurisdiction.

Speaking before the 2010 AICPA National Conference, Paul Beswick, then Deputy Chief Accountant (before he served as Acting Chief and Chief Accountant), echoed these preliminary observations, and offered the following commentary that some in attendance may have found provocative or at least controversial (Beswick, 6, 2010, p. 2):

> In our October update we highlighted that the majority of jurisdictions are following either a convergence or an endorsement approach. In my opinion, if the U.S. were to move to IFRS, somewhere in between could be the right approach. I will call it a "condorsement" approach. Yes, I admit I just made up a word. And by the way, the patent is pending as we speak.

Beswick's commentary may not have been his greatest moment with his boss, James Kroeker, and other IFRS believers.

On July 7, 2011 (USSEC, 2011b), the SEC held another roundtable on international financial reporting standards. Three panels were held on the following topics: (1) investor understanding and knowledge of IFRS [U.S. investors' current knowledge of IFRS and preparedness for potential incorporation, how and when U.S. investors educate themselves on changes in accounting standards, extent, logistics, and timing necessary to undertake changes to improve investor understanding of IFRS, potential methods of incorporation]; (2) smaller public companies nature and frequency of capital market activities, understanding financial statement users and their needs, cots and benefits of potential IFRS incorporation, the potential methods of incorporation, and FASB's convergence agenda, participation in the accounting standard-setting process]; and (3) regulatory environment [current use of U.S. GAAP financial information in regulatory activities, steps required and timing necessary to undertake changes to regulation as a result of changes in accounting standards, benefits and challenges attendant to a potential transition to IFRS as a basis of financial reporting, factors to reduce the costs and efforts of a potential transition to IFRS] (USSEC, 2011b).

Roundtable participants identified the same type of benefits [condorsement, principles-based standards, etc.] and risks (IASB's structure and its funding, unique tax laws in the United States, no single model of international accounting standards (IFRS promulgated by IASB versus jurisdictional IFRS, cost of implementation) as identified in previous forums (USSEC, 2011c).

On July 13, 2012, the OCA issued its "*Final Staff Report*" of the 2010 Work Plan.[6] While not all inclusive, some general

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[6] The OCA issued eight reports relating to its 2010 Work Plan including: (1) Work Plan for the Consideration of Incorporating IFRS into the Financial

observations for each of the six key areas of the Work Plan as presented in the SEC's "*Final Staff Report*," included (USSEC, 2012a):

> Sufficient development and application of IFRS for the U.S. domestic reporting system, including enforceability and auditability of the standards, as well as comparability of IFRS reporting across jurisdictions (Part II, p. 17);
>
> - Observations—While the IASB's IFRS are generally perceived to be high quality by the global financial reporting community, IFRS continues to have areas that are underdeveloped, such as accounting for extractive activities, insurance contracts, and rate-regulated activities.
>
> The independence of international accounting standard-setting for the benefit of investors (Part III, p. 44);
>
> - Observations—While the IFRS Foundation appears to have a reasonable balance of providing oversight of the IASB, including the IASB's independence as a standard setting body, it may be necessary to put in place mechanisms specifically to protect the US capital markets - such as maintaining an active FASB to endorse IFRSs. While the IFRS Foundation has made progress in developing a broad-based funding mechanism, it has no ability to require or compel funding, and has not been successful in obtaining

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Reporting System for U.S. Issuers (USSEC, 2010a); (2) Progress Report (USSEC, 2010b); (3) Exploring a Possible Method of Incorporation (USSEC, 2011a); (4) A Comparison of U.S. GAAP and IFRS (USSEC, 2011d); (5) An Analysis of IFRS in Practice (USSEC, 2011e); (6) IFRS Foundation Monitoring Board (USSEC, 2012a); (7) Exploring a Possible Method of Incorporation (USSEC, 2012b); and 8) Work Plan for Consideration of Incorporating IFRS into the financial Reporting System by U.S. Issuers–Final Staff Report (USSEC, 2012d).

the funding for the portion of the IASB budget that is allocated to the U.S. The SEC's most significant concern about the funding approach is the continued reliance of the IFRS Foundation on voluntary contributions from the large public accounting firms.

Investor understanding and education regarding IFRS (Part IV, p. 81);

- Observations—Based on its outreach, the Staff found that there is a wide spectrum of investor knowledge of IFRS. The Staff will continue to consider how to improve investor education and engagement in the process. The Staff also found during its outreach that investors are interested in transition issues associated with incorporating IFRS into the U.S. financial reporting system, should the Commission decide to do so.

Examination of the U.S. regulatory environment that would be affected by a change in accounting standards (Part V, p. 92);

- Observations—Based on its outreach, the OCA determined that regulatory impact is largely dependent on the method by which IFRS would be incorporated. Industry regulators expressed the view that incorporating the content of IFRS into U.S. GAAP, rather than looking directly to IFRS, may address or mitigate many concerns expressed by regulators regarding this issue. Several regulators also highlighted that if certain industry-specific standards under U.S. GAAP were to be lost, with no equivalent standard under IFRS, this would impair their regulatory regime and provide less meaningful information to investors. One example cited is the accounting for rate-regulated assets and liabilities.

The impact on issuers, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations, and litigation contingencies (Part VI, p. 113); and

- Observations—Issuers will face a number of issues of concern including accounting systems, contractual arrangements, corporate governance, and accounting for litigation contingencies ... incorporation of IFRS into the U.S. system would significantly affect preparers of financial statements. There is already significant concern in the system about the existing pace of change with joint projects between the FASB and the IASB expected to be completed in the next year or two.

Human capital readiness (VII, p. 131);

- Observations—Based on their outreach, the OCA found the level of preparedness for a transition to IFRS varies across companies and audit firms. These companies and audit firms will have to develop further expertise in-house or acquire additional human capital resources to incorporate IFRS. The demands of human capital will be influenced by the method of transition to IFRS and the length of any transition period.

Lastly, the CA and the OCA staff concluded that (USSEC, 2012d, Part I, pp. 12-14):

> In execution of the Work Plan, the Staff considered a wide spectrum of options on whether and, if so, how to incorporate IFRS. The spectrum spanned from no action, to incorporating IFRS, to pursuing the designation of the standards of the IASB as “generally accepted” for purposes of U.S. issuers’ financial

statements. However, early in the Staff's research, it became apparent to the Staff that pursuing the designation of the standards of the IASB as authoritative was, among other things, not supported by the vast majority of participants in the U.S. capital markets and did not appear to be consistent with the methods of incorporation employed by the other major capital markets around the world. Accordingly, the Staff focused on other methods of potential incorporation, such as an endorsement mechanism or continued convergence of accounting standards issued by the Financial Accounting Standards Board ("FASB") and the IASB. The basis of the Staff's decision to expand the focus of its efforts to methods beyond the idea of a potential designation of the standards of the IASB as authoritative principally considered the following three factors: (1) the influence on standard setting; (2) the burden of conversion; and (3) the reference to U.S. GAAP embedded throughout laws and regulations.

For these reasons, there appears to be relatively less support within the U.S. financial reporting community for the designation of the standards of the IASB as authoritative for use by U.S. issuers for domestic reporting purposes. However, the Staff found there to be substantial support for exploring other methods of incorporating IFRS that demonstrate the U.S. commitment to the objective of a single set of high-quality, globally accepted accounting standards while addressing some of the aforementioned concerns. Therefore, the Staff focused its efforts on other potential incorporation methods of IFRS.

In summary, the following passage was included as an 'Introductory Note,' tucked between the two title pages (USSEC, 2012d):

> The Commission believes it is important to make clear that publication of the Staff Report at this time does not imply—and should not be construed to imply—that the Commission has made any policy decision as to whether International Financial Reporting Standards should be incorporated into the financial reporting system for U.S. issuers, or how any such incorporation, if it were to occur, should be implemented.

The chief accountants and the OCA staff started working on the 2010 Work Plan in February 2010. Almost 2½ years after the 2010 Work Plan was introduced and eight studies and reports later, the final staff report failed to make a recommendation. In short, the lack of support was obvious; hence, the use of IFRS (IASB) by U.S. issuers was, at least for the time-being, 'dead on arrival.'

In April 2012, the FASB and IASB issued a joint update to complete their convergence projects (IFRS Foundation, 2015). The two boards agreed to issue standards on the convergence project by mid-2013. The United States, the EU, and other members of the G20 group of top economies had echoed the pledge to have a single set of high-quality global accounting standards in place by mid-2013, but these pledges would not materialize (Jones, 2012).

On June 20, 2012, the SEC announced that Mr. Kroeker would be leaving the SEC to return to practice. He left the SEC on July 13, 2012 (USSEC, 2012c).

**Paul A. Beswick, Acting Chief Accountant (July 16, 2012 – December 20, 2012)**

On July 16, 2012, Chair Schapiro announced the appointment of Paul A. Beswick to serve as Acting Chief Accountant (USSEC, 2012e). Prior to serving as acting chief accountant, Mr. Beswick most recently served as Deputy Chief Accountant of the accounting group (USSEC, 2009d).

Mr. Beswick also had served as staff director in evaluating the implications of incorporating IFRS into the financial reporting systems for U.S. companies. He worked on both the 2010 Work Plan and the SEC's "Final Staff Report" (USSEC, 2012e). Like his predecessors, Mr. Beswick supported the FASB-IASB convergence efforts and the use of IFRS by U.S. registrants. Less than five months after his appointment as acting chief accountant, Mr. Beswick (2012, p. 1) opined:

> The consideration of incorporating IFRS may be the single most important accounting determination for the Commission since the determination to look to the private sector to establish accounting standards in the 1930s.
>
> We understand individuals' interest in this topic and the potential uncertainty that may exist, but the staff is working to ensure that the Commission is properly informed on the issue.
>
> I acknowledge that there is a certain amount of standard-setting fatigue. On some level that is understandable, as the Boards have been working on these projects for the better part of a decade. I am hopeful that the Boards are in the final stages of completing these projects.

While serving as Deputy Chief Accountant, Mr. Beswick had declared that "the majority of jurisdictions are following either a convergence or an endorsement approach. In my opinion, if the U.S. were to move to IFRS, somewhere in between could be the right approach. I will call it a "condorsement" approach" (Beswick, 2010, p.2).

**Paul A. Beswick, Chief Accountant (December 21, 2012 – October 3, 2014)**

On December 21, 2012, Chair Walter announced the appointment of Mr. Beswick as the Chief Accountant (USSEC, 2012f).

While some continued to call for use of the IFRS (IASB) by U.S. issuers, as of May 2013, the FASB-IASB convergence initiative had not been concluded, no recommendation for action had been made, and no public statement had been made by the SEC regarding the use of IFRS (IASB) by domestic issuers. "The lack of a clear vision from the U.S. creates uncertainty and hampers the IFRS from becoming a truly global accounting language, said De Rynck, who speaks on behalf of Michel Barnier, the EU commissioner responsible for financial services. It is also becoming more difficult to justify the representation of jurisdictions not applying IFRS in the IASB governance framework, he added in remarks seen as taking a swipe at the United States" (Jones, 2012, p. 1). In short, the SEC drew criticism from the IASB when it reported that "there was no broad support for adopting IFRS in a comprehensive way and gave no timetable for taking such a decision" (Jones, 2012, p. 1).

Delivering the 'Keynote Address' entitled "How America's Participation in International Financial Reporting Standards Was Lost" at the 33rd Annual SEC and Financial Reporting Institute Conference' in June 2014, former SEC Chairman, Christopher Cox (2014) declared:

> But that was several years ago. And a great deal has changed since then. Today, I come to bury IRFS, not to praise them (p. 3).
>
> The fact is, far too much time has gone by with no meaningful progress. I think we have to fairly conclude that the moment has passed. Full-scale adoption of IFRS in the United States might once have been possible, but it is no longer. This is not a prognosis. It's just a statement of fact (p. 4).

After leaving the SEC, Mr. Kroeker was appointed a member and vice chairman of the Financial Accounting Standards Board, effective July 24, 2013 (FAF, 2013). By June 2014, the FASB's position on IFRS (IASB) being used by U.S. issuers seemed abundantly clear. Speaking at the same June 2014 conference, Vice Chairman of the FASB and former SEC Chief Accountant James Kroeker (2014) stated:

> As we move through 2014, the FASB's top priority is to bring to a successful conclusion the remaining joint projects underway with the IASB ... Although these projects will mark the end of one era in our bilateral working relationship with the IASB, we remain committed to cooperation in the pursuit of more consistent international accounting standards (p. 9).
>
> We envision a long-term, global standard-setting environment in which the FASB, the IASB, and other major capital market standard setters collaborate, cooperate and coordinate as peers. The goal would be to develop more comparable standards, while also addressing the needs of the specific capital markets for which these organization sets standards (p. 9).

One way we will continue to pursue greater global comparability is through our membership on the IASB's Accounting Standards Advisory forum (ASAF), which allows us to represent U.S. interests in the development of IFRS. It also gives us a valuable opportunity to collaborate with other national standard setters to develop high-quality standards, both at the global and national level (p. 9).

The FASB is unique in that it is the only accounting standard-setting organization anywhere that is dedicated to serve the best interests of investors, preparers, auditors and others who participate in the U.S financial reporting system (p. 10).

Business practice and business culture in the United States has its unique aspects. In the United States, we need unambiguous standards for those who must apply the standard, enforce it, and use the resulting information (p. 10).

Our preparers need their standards to be sufficiently clear so that they know what to do, and our auditors need clarity to be able to express an opinion. Our system simply cannot function over the long run with only broad ideas (p. 11).

That's why we at the FASB are redoubling our efforts to develop high-quality standards that are useful to those who rely on GAAP, while at the same time seeking to make GAAP more comparable with other standards around the world – a goal that I believe is consistent with the focus of our agenda as we journey down the road ahead (p. 11).

On May 15, 2014, the SEC announced that Mr. Beswick would leave the Commission to return to the private sector, remaining at the SEC for a transitional period to help ensure continuity in the OCA (USSEC, 2014a). He remained at the SEC until October 3, 2004.

**James V. Schnurr, Chief Accountant (October 6, 2014 – Present)**

On August 26, 2014, Chair White appointed James V. Schnurr as the SEC's next Chief Accountant. He assumed his post on October 6, 2014 (USSEC, 2014b).

While the SEC remained indecisive about the convergence project or mandating domestic issuers to use IFRS (IASB), international accounting standards was the introductory topic covered by Mr. Schnurr during his first speech as the SEC's Chief Accountant. Speaking before the 2014 AICPA National Conference on Current SEC and PCAOB Developments, Mr. Schnurr affirmed that (Schnurr, 2014, p. 2)

> When I arrived at the Commission two months ago, Chair White asked me to take a hard look at where the staff had been on the issue and make a recommendation to her as to the path forward ... While these goals remain at the forefront, Chair White and I recognize that any continued uncertainty around IFRS results in uneasiness for investors across the globe. Therefore, it is a priority of mine to bring a recommendation to the Commission in the near future with the hope of resolving, or at least lessening, this uncertainty.
>
> Based on what we have heard to date, it appears that U.S. constituents generally are not supportive of full adoption for a variety of reasons, including legal issues and general cost-benefit concerns, among others. Those

> concerns will certainly be considered in my analysis. US constituents have also raised similar issues with a broad-based option. These issues include legal impediments, practical challenges, and an impact on comparability that does not currently exist in the domestic reporting environment.

In order to mandate the use of IFRS by domestic registrants, the SEC must grapple with how it can exercise a level of influence over the IASB commensurate with or ample to that it has over the FASB, while fulfilling its legal and regulatory responsibilities. The general thinking is that the FASB will remain as the U.S. private accounting standard-setter. For example, in its 2010 Work Plan final report, the SEC staff stated (USSEC, 2012d, p. 84):

> We believe the FASB will continue to play a critical and substantive role in achieving the goal of global accounting standards. The FASB is the accounting standard setter for the U.S. capital markets, and it should continue to work with the IASB to improve accounting standards.

Mr. Schnurr insisted that while (Schnurr, 2015a, p. 3):

> I recognize there are some people who believe the spirit of cooperation has run its course and that we are starting to observe the boards move in different directions. However, some of the standard setting agenda items the FASB is currently addressing contradict the idea that cooperation has ended. While the FASB has certainly started adding more "FASB only" projects to its standard setting agenda, I would suggest the FASB still very much considers IFRS in setting its agenda and during its deliberations.

Speaking before the 34th Annual SEC and Financial Reporting Institute Conference, Schnurr noted that (Schnurr, 2015b, pp. 1-2):

> ... I have spent considerable time with my staff and others researching and discussing IFRS, and I believe Chairman Cox's burial of IFRS entirely may have been premature.
>
> ... So, while full scale adoption or an option does not appear to have support, it does not mean we "bury" the underlying objective of a single set of high-quality, globally accepted accounting standards. On the contrary, constituents continue to support that idea. So, the real questions are: what is the path to achieve that objective and how do we get there?
>
> ... I believe that, for the foreseeable future, continued collaboration is the only realistic path to further the objective of a single set of high-quality, global accounting standards. Accordingly, how the FAF, IFRS Foundation, FASB and IASB decide to interact in the future is critical to the advancement of the objective of a single set of high-quality, global accepted accounting standards.

In September 2015 (Schnurr, 2015c), Mr. Schnurr echoed essentially the same message about the latest thinking on IFRS as he had in December 2014 (Schnurr, December 8, 2014), May 2015 (Schnurr, 2015a), and June 2015 (Schnurr, 2015b), noting that "the FASB and IASB should continue to focus on converging the standards" (Schnurr, 2015c, p. 4) because he believes "that, for the foreseeable future, continued collaboration is the only realistic path to further the objective of a single set of high-quality, global accounting standards" (Schnurr, 2015c, p. 5).

Delivering the Keynote Address at the 2015 AICPA National Conference, Chair White stated (White, 2015, p. 5):

> With respect to the issue of possible further use of IFRS in the United States, as I have said in the past, I believe it is important for the Commission, as a Commission, to make a further statement about its general views on the goal of a single set of high-quality global accounting standards – a topic that the Commission itself has not spoken on since 2010.
>
> At this conference last year, Jim Schnurr discussed the possibility of allowing domestic issuers to provide IFRS-based information as a supplement to GAAP financial statements without requiring reconciliation. This proposal has the potential to be a useful next step, and the staff has now developed a recommendation for the Commission's consideration, which staff will be discussing with all of the Commissioners so that we can determine the path forward.

However, the only statement made by Chief Accountant Schnurr at the December 2014 conference about IFRS-based information as a supplement to GAAP financial statements without requiring reconciliation was the following passage (Schnurr, 2014, p. 2-3):

> As one example, we understand that some domestic issuers may, now or in the near future, prepare IFRS-based financial information in addition to the U.S. GAAP based information that they use for purposes of SEC filings. However, regulatory constraints may dissuade some issuers from providing this information, as current SEC rules would consider IFRS-based information to be a "non-GAAP" financial measure for a domestic issuer. Should IFRS-based information

> continue to be considered "non-GAAP" financial measures subject to the requirements for such measures, or should it be thought of differently? Under this line of thinking, issuers that do not believe IFRS-based information would be beneficial to investors would not be forced to undertake what we understand to be, in some cases, significant implementation costs.
>
> But that's just one example. I am hopeful that my remarks today will serve as a starting point for the continuation of this journey with you over the next few months. Based on the progress of our collective efforts, I am hopeful to be in a position in the coming months to commence discussions with the Chair and the Commissioners about the different alternatives for potential further incorporation of IFRS and the related issues/concerns of each alternative with the objective of reaching a recommendation on what, if any, further incorporation or use of IFRS by US registrants would be permitted or required. And, of course, any rulemaking proposal that the Commission decides to consider would be subject to the normal notice and comment process.
>
> Whatever the ultimate result is with respect to IFRS in the U.S., the boards should continue to strive where practicable for aligned high-quality global standards.

At the 2015 AICPA National Conference, Mr. Schnurr (2015d, p. 3) stated:

> As I mentioned at this conference last year, Chair White asked me to make a recommendation to her as to what action, if any, the Commission should take regarding the further incorporation of IFRS into the

> U.S. capital markets, The staff will be in discussions with the Commissioners regarding certain regulatory changes that would facilitate the ability of domestic issuers to provide IFRS-based information as a supplement to U.S. GAAP financial statements.

However, KPMG argues that "it is unlikely that convergence efforts alone would achieve a single global set of high-quality accounting standards. In order to achieve that objective, we believe a new strategy would need to be developed and put into action" (KPMG, 2015, p. 8).

In summary, as of December 31, 2015, no other official public statements (SEC press releases, public statements, or speeches) have been made on the subject of Schnurr's recommendation to Chair White about "the path forward" (Schnurr, 2014, p. 2) for acceptance of IRFS (IASB).

## SUMMARY, ANALYSIS, AND CONCLUDING OBSERVATIONS

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 2.

**Exhibit 2**
**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 ***(Nov 14, 1988)*** | 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' ***(Jul 2, 2007, Hewitt)*** |
| IOSCO and IASC agree on IASC's 'proposed work program' for core set of standards ***(Jul 1995, Sutton)*** | SEC issues its 'Concept Release Nos. 33-8831A & 34-56217A' to permit 'Domestic (U.S.) Issuers' to use IFRS (IASB) **(Aug 7, 2007, Hewitt)** |
| SEC issues a Press Release 96-61, to communicate its statement of support upon completion of three key elements ***(Apr 11, 1996, Sutton)*** | SEC issues its 'Final Rule Nos. 33-8879 & 34-57026 to remove 20-F reconciliation requirement by 'Foreign Private Issuers' that use IFRS (IASB) **(Dec 21, 2007, Hewitt)** |
| IASC disclosure standards endorsed by IOSCO ***(Sep 1998, Turner)*** | 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 ***(Sep 28, 1999, Turner)*** | 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 ***(Fall 1999, Turner)*** | 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 ***(Dec 1999, Turner)*** | 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 ***(Feb 24, 2010, Kroeker)*** |
| 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' ***(Feb 16, 2000, Turner)*** | Over the next 15 months, the OCA issues a series of updates and reports on the '2010 Work Plan' ***(Oct 29, 2010–Feb 9, 2012, Kroeker & Beswick)*** |
| IASB is formed (successor of IASC) ***(Apr 1, 2001, Turner)*** | OCA issues its 'Final Staff Report' on the '2010 Work Plan' initiative, but the report includes no recommendations ***(Jul 13, 2012, Kroeker)*** |
| SEC Supports the FASB-IASB's Convergence Project and '2002 Norwalk Agreement' ***(Sep 18, 2002, Herdman)*** | SEC takes <u>No Action</u> on the '2010 Work Plan,' its updates, interim reports, or the final report ***(Jul 14, 2012–Dec 31, 2015, Beswick & Schnurr)*** |
| CA Nicolaisen publishes '2005 Roadmap' to eliminate 20-F for 'Foreign Private Issuers' (***Apr 2005)*** | |
| SEC Supports the FASB-IASB's Convergence Project and '2006 MoU' ***(Feb 27, 2006, Taub)*** | |

The push to achieve a single set of high-quality global financial accounting and reporting standards started with the notion of 'harmonizing' the standards. Efforts then were turned to the convergence project, but this initiative seemed to intensify and expand and then wane. While the SEC's IFRS-related processes included due process, public exposure and comment periods, and transparency, regulators demonstrated an almost myopic fixation to advance the use of IFRS (IASB) by both foreign private issuers and U.S. domestic issuers; albeit, convergence of U.S. GAAP and IFRS had not been fully realized by the two boards (FASB and IASB).

Nicolaisen and Hewitt saw the removal of the 20-F reconciliation requirement as a step to bring mandatory use of IFRS (IASB) by U.S. issuers to fruition. Despite the SEC's 20-year investment, such perspective seemed premature, given that the IASB represents the interests of many diverse countries, while the FASB represents only the United States. On May 23, 2007, Hewitt (2007b) stated "... the IASB and FASB are in the middle of working through their 2006 – 2008 convergence plan" (p. 6). However, it remained unclear if the FASB and the SEC would accept the IFRS (IASB), as the U.S. financial accounting and reporting standards (FARS), without the convergence project being fully realized.

Even so, there could be significant differences between a set of financial statements prepared by a company in Country A, where the FARS comply using a jurisdictional version of IFRS as compared to a set of financial statements prepared by a company in Country B, where the FARS comply using IFRS issued by IASB. This seems to fly in the face of "an apples-to-apples basis" (Hewitt, 2007b, p. 3). "Jurisdictions around the world are reserving to themselves the right to tailor the IASB's official rendering of IFRS to their own legal and other circumstances, including an accommodation to political pressures" (Zeff 2007, p. 298). According to Zeff (2007), "the IASB was intended to be a retailer of accounting standards, it has become, in large measure, a wholesaler" (p. 298) because of the jurisdictional variations of IFRS.

Another explanation for the SEC's push for eliminating the 20-F reconciliation was that the EU had adopted a filing requirement that companies wishing to access EU markets which continue to use U.S. GAAP after 2004 would be required to prepare a reconciliation similar to the U.S. 20-F reconciliation. One might speculate that such an action by the EU was nothing more than payback for the SEC's inaction on the removal of its 20-F reconciliation requirement for foreign private issuers. That would not seem to be the case, however, as Japan, Canada, and the United States subsequently were granted an unconditional extension of the reconciliation requirement until January 1, 2009 to match the forecasted date for the lifting the U.S. 20-F reconciliation (as specified in the 2005 Roadmap).

In December 2008, U.S. GAAP was recognized as equivalent with IFRSs as adopted in the EU, without any time limit (Camfferman and Zeff, 2015). Such a one-sided stance might be explained by the prevailing view that U.S. GAAP was viewed as a higher-quality and more robust set of accounting standards, not simply equivalent. "The much stricter regulation of financial reporting in the USA stands in stark contrast to that in virtually all other countries." (Zeff, 2007, p. 299).

The SEC has been conflicted about the IFRS GAAP versus the U.S. GAAP—with one foot straddling the IFRS GAAP lane and the other foot straddling the U.S. GAAP lane. The Commission has been lukewarm about the use of IFRS GAAP, while at the same time, it has been ambivalent about eliminating the U.S. GAAP. For example, in April 2007 the SEC announced that it supported Nicolaisen's 2005 Roadmap for the elimination of the 20-F reconciliation by foreign private issuers (USSEC, 2007c), but by June 2007, Chairman Cox announced the formation of its Advisory Committee on Improvements to Financial Reporting. The purpose of the Committee was to "examine the U.S. financial reporting system with the goals of reducing unnecessary complexity and making information more useful and understandable for investors" (USSEC, 2007d, p. 1). Chairman Cox said (USSEC, 2007f, p. 1):

> I am pleased that this exceptionally distinguished group will advise the Commission and the nation on how our increasingly complex financial reporting system can be tamed and made more useful for everyone who relies on it. The committee members each represent key constituencies in our capital markets. I know we can count on them to thoroughly study these issues and recommend improvements that will keep America's financial reporting system as the gold standard for the world.

Another, more current, illustration reflects the SEC's ambiance about international accounting standards. Speaking before the Brooklyn Law School International Business Law Breakfast Roundtable, Commissioner Kara Stein declared (Stein, 2015, p. 6):

> Over the last decade or so, the accounting community has been engaged in a robust conversation about whether the United States should abandon United States Generally Accepted Accounting Principles (U.S. GAAP) and move to the International Financial Reporting Standards (IFRS). This is an extremely complicated and controversial topic. I'd like to highlight some of my current thoughts.
>
> First, it is difficult to deny the appeal of a single set of globally-recognized, high-quality accounting standards. It's a wonderful vision. But, beyond the simplistic allure of a universal set of comprehensive standards lies a myriad of shortcomings. The question is, what can we achieve and how would we get there?

> I am not convinced of a need to abandon U.S. GAAP in favor of IFRS. That is not to say that U.S. GAAP is perfect. Nor is IFRS perfect. I'm also not convinced that providing financial statements in two different sets of accounting standards would be beneficial for either investors or issuers. With complexity in both businesses and products on the rise, it seems that presenting information in a dueling set of financial reporting standards does not really aid in understanding.

Mr. Cox (2014) identified five things that U.S. stakeholders want from their accounting standard setter: (1) they want accounting standards that are developed in their interests, as legitimate stakeholders and users of financial statements (investors, preparers and public companies); (2) they want a standard setting process that is transparent; (3) they want the standard setter to be independent; (4) they want the standard setter has to be accountable; and (5) they want to be able to participate in the standard setting process (pp. 7-8). Cox (2014) identified some of the reasons why the SEC had not mandated or at least permitted the voluntary use of IFRS (p. 8):

> Over the past six years, while the SEC was remaining agnostic, the two Boards in London and Norwalk were doing the heavy lifting of actually attempting to make convergence work. But that process wasn't just a proving ground for the standard setters. It was also a chance for American users of financial statements, investors, preparers, and public companies to get up close and personal with how this was going to work. And what they saw, they mostly didn't like. These stakeholders began to realize that each of the five main things they wanted out of the standard setting process

> was being degraded by virtue of making the system global.
>
> Unlike many of the countries that today use IFRS, for whom the switch to global standards was definitely an upgrade, the United States already has a mature, high-quality set of standards that is tailor made for the American market. And we are accustomed to a high level of due process that is uniquely sensitive to American concerns. So the bar is set very high when it comes to convincing U.S. stakeholders to switch. This is particularly true when it comes to the expected level of due process.

Mr. Cox maintained that there are benefits associated with a global set of accounting standards. "... But we still have a long way to go ... Perhaps most ambitiously, the SEC can still consider the voluntary use of IFRS in the United States, in limited circumstances where this would make sense. Finally, and most importantly, the FASB can get back to its mission of serving the U.S. market and the interests of U.S. stakeholders. Our roughly half a decade experiment with the IASB has not been wasted. We have seen what global due process means – and gained a new appreciation for what we once had here at home" (Cox, 2014, pp. 13-14).

But ten years later, international accounting standards and the removal of the 20-F reconciliation requirement were not new topics. On April 19, 1996, Commissioner Isaac Hunt spoke to the Ohio Council-Institute of Management Accountants. The title of his presentation was *The Impact of the SEC on Financial Reporting*, and one of the topics he discussed was "the growing importance of international standard setting organizations and what this means to the SEC's role in the financial reporting process" (Hunt, 1996, p. 6).

Commissioner Hunt noted that "Daimler-Benz became the first German company to register securities in the U.S. Under US GAAP, Daimler reported a loss of almost a billion Deutschmarks for its 1993 fiscal year; under German GAAP, it reported a profit of 168 million DM for the same time period. Daimler was required, under the current U.S. requirements for foreign issuers, to reconcile net income and equity reported in its German GAAP financial statements to U.S. GAAP measures, and this huge difference was an illustration of how significant accounting differences could be between two major industrialized countries. Was this requirement imposed because U.S. reporting requirements are driven by the needs of U.S. investors - and under the current system we presume that U.S. users speak U.S. GAAP" (Hunt, 1996, p. 6). Again, Daimler's 1993 earnings were:

1993 U.S. GAAP = $1 Billion Loss (in Deutschmarks)
1993 German GAAP = $168 Million Profit (in Deutschmarks)

While such significant differences exist, the SEC eliminated its 20-F reconciliation by foreign private issuers in 2007, but as of December 31, 2015, the SEC has not accepted IFRS GAAP for U.S. domestic issuers. In short, the SEC rejected Hewitt's 2008 Roadmap and Kroeker's and Beswick's 2010 Work Plan. It is impossible to know if the SEC would have approved the use of IFRS (IASB) at the end of 2008, without a change of political administration and the financial crisis that brought about the worst U.S. recession since The Great Depression; albeit, the Commission has spent significant resources across its 20-year journey in pursuit of a high quality set of global accounting standards that could be used in cross-border transactions.

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