INTERNATIONAL FINANCIAL REPORTING STANDARDS

AND THE INTERNATIONAL ACCOUNTING STANDARDS BOARD

by

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I. INTRODUCTION

Financial reporting standards around the world are rapidly changing. Due to an increase in worldwide trade and an awareness of manipulated accounting standards, national accounting standard setters have confirmed the need to establish a single worldwide set of high-quality financial reporting standards. Standard setters hope that the creation of international financial reporting standards (IFRS) will improve global economies.[1] For example, IFRS may prevent errors in financial reporting, decrease costs, and establish methods for comparing transactions that take place in different regions of the world.[2] The increase in accuracy and knowledge will aid consumers in making wise decisions. Over the past three years, national standard setters and the International Accounting Standards Board[3] have made much progress in developing IFRS.

This paper will discuss the need for IFRS and also examine the current proposal under consideration by national standard setters. Part II will explain two significant reasons why a set of IFRS should be developed. Part III will introduce the organization in charge of developing IFRS, the International Accounting Standards Board (IASB). Part IV will explain different national and regional perspectives and actions taken to converge to IFRS. Specifically, this section will focus on the European Economic Area (EEA)[4], and North America in conjunction with Chile. The countries in these regions are reviewing their own accounting standards and simultaneously comparing them to IFRS. Each country plans to eventually adopt the standards that it considers to be the best. Finally, in Part V I will examine the strengths and weaknesses of the IASB and IFRS and I will provide recommendations to improve them.

An explanation of accounting standards is necessary for the purpose of this paper. Accounting standards are defined as "authoritative statements of how particular types of transactions and other events should be reflected in financial statements."[5] For example, one US standard requires that managers estimate the future cash flows of their plant, property, equipment, and certain intangibles.[6] If an asset's expected future cash flows falls below the value reported in the company's financial statements, the company must record an impairment loss in its financial statements for that asset.[7] Standards such as this one provide users of financial statements with an idea of a company's financial position. Users of financial statements generally include investors, creditors, managers, unions, and government agencies.[8] These parties most often base important financial decisions on statements such as the balance sheet, the income statement, the statement of cash flows, and the statement of retained earnings.[9] Therefore, it is essential for financial statements to be relevant and reliable.[10]

The terms "accounting standards" and "financial reporting standards" will be used interchangeably throughout this paper. Additionally, the term "IFRS" will be used in a context to mean both IFRS and International Accounting Standards (IAS), while "IAS" will be used to mean only IAS. The difference lies in the organization that formed the standards. IAS were developed by the IASB's predecessor, the International Accounting Standards Committee (IASC). The IASB has retained IAS, but deems its own standards as IFRS.

II. WHY WE NEED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Two trends result in the need for international accounting standards: an increase in worldwide trade and accounting scandals in various countries. An international system of accounting would have positive effects on each of these trends.

A. Increased Worldwide Trade

Trade is significantly increasing on a global scale. This section will examine two causes for increased worldwide trade. First it will discuss the resulting increase in trade from privatization and foreign investment. It will then discuss economic globalization. It will conclude with an explanation of the resulting need for capital markets to have the ability to compare their accounting standards and financial statements to those of foreign capital markets. Countries that choose to adopt IFRS would provide benefit to their citizens through increasing the understanding of and improving market relations with foreign businesses.

1. Privatization and Foreign Investment

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The IASB's liaison for the US Financial Accounting Standards Board (FASB), Jim Leisenring, believes that the fall of the Berlin Wall in 1989 originated the need for uniform accounting standards.[11] The fall of the Berlin Wall and the simultaneous collapse of the Soviet Union's communist regime released the burden of an inefficient society onto the rest of the world.[12] Because all businesses in communist countries are owned by the state, there is no competition and thus no need for financial statements.[13] Therefore, formerly communist countries refrained from using financial reporting standards.[14] When the Berlin Wall fell, East Germany and other formerly communist countries needed financial reporting standards in order to privatize businesses and attract foreign investment to help stabilize their economies.[15]

This scenario continues today with some formerly communist European countries and other developing countries. For example, Romania, which began to emerge from communism in 1989, continues to need foreign investment to upgrade its factories and machinery.[16] In addition, Mexico has similar needs to Romania's because it prohibited most foreign investment during the majority of the twentieth century.[17] These governments understand that, in order to receive foreign investment, investors and creditors need assurance of a company's financial performance through understandable financial statements.

In addition to restructuring, national governments privatize industries to eliminate their costs and raise their revenues.[18] These governments must provide potential investors and creditors with financial statements that accurately explain the position of the companies within each industry for a purchase or an investment to take place. In a similar manner, the private sector faces the same requirements when searching for financing for its own businesses. For an investor or creditor to feel comfortable with a risk, he must be confident that the business's managers are following quality accounting standards and that he can understand those standards. A set of uniform accounting standards would provide him with that understanding.

2. Economic Globalization

Economic globalization refers to the recent advancements in technology and infrastructure that allow people and capital to quickly and safely communicate and move across borders.[19] Because of economic globalization, businesses from different sides of the globe find it easier than ever to merge into one enterprise. The ease of interacting and transacting with foreign businesses created by economic globalization contributes to the need for financial statements to be understandable for people from various countries. A uniform set of accounting standards would satisfy this need.

3. Why Accounting Standards Must Be Comparable

A great step towards creating understandable accounting standards can be accomplished through implementing the concept of "comparability." An intermediate accounting textbook defines comparability as "information that has been measured and reported in a similar manner for different enterprises."[20] It continues by noting that "[c]omparability enables users to identify the real similarities and differences in economic phenomena because these differences and similarities have not been obscured by the use of noncomparable accounting methods."[21] Specific examples of the need for comparable accounting standards follow.

In 1993 a German automotive company, Daimler Benz, was listed on the New York Stock Exchange (NYSE). In order to be listed, the company was required to reconcile its German financial statements to US generally accepted accounting principles (GAAP).[22] The reconciliation revealed that German managers had used prior periods' profits to conceal poorer years' losses, which moderated fluctuations in their earnings. The financial statements for 1993 showed a $354 million profit with German GAAP versus a $1 billion loss with US GAAP.[23] This reconciliation showed Daimler Benz and its investors that its new line extensions were unprofitable.[24] Knowledge such as this is essential for maintaining the success of any business.

Similarly, in 1995 a Finnish telecommunications company, Nokia, reported different net profits under Finnish, international, and US accounting standards.[25] Each reported figure might be equally accurate, yet derived with different standards. It would be time-consuming to review each financial statement under the different accounting systems to determine whether the company was thriving.

A global economy requires that businesspeople understand the operations of businesses in foreign countries. As the examples given above illustrate, differing standards prevent businesspeople from accurately comparing companies based in different countries without an understanding of each individual country's accounting standards. Eliminating the differences in accounting standards would increase awareness of firms' and countries' financial performance and thus benefit our global capital market.[26] Investors, creditors, and consumers would have more knowledge to weigh the risks of transacting with companies and nations. Just as the US created standards for financial reporting to prevent the US depression of the 1930s from reoccurring, our global capital market needs standards for financial reporting to prevent a global depression from ever occurring.

B. Accounting Scandals in Various Countries

In addition to providing a means to compare operations and transactions in different countries, IFRS may provide better standards than those currently in use in many countries. Better standards would include measures to prevent managers from

manipulating financial reporting, which has unfortunately taken place throughout the world for decades.[27] The recent increase in accounting scandals worldwide demonstrates the need to review the current accounting standards. Examples of scandals from the US and the EEA during the past three years follow.

1. The US

In September 2001 a catastrophe resulted from a US company's fraudulent financial reporting. Enron, an energy trader, announced that its managers falsely reported higher earnings "through the 'misuse of reserve accounts, concealment of losses, inflation of asset values and deliberate use of improper accounting treatment for transactions.'"[28] Enron's announcement led to its collapse and the collapse of its auditor, Arthur Anderson, which allowed Enron to report false information.[29] Furthermore, the investigation of the accounting profession as a result of Enron's scandal uncovered additional accounting scandals in the US. Some companies in which the US's accounting oversight board, the Securities and Exchange Commission (SEC), found misconstrued information include WorldCom, Global Crossing, Kmart, Williams Co., Tyco, and Xerox.[30] These scandals led to a loss of trust in the stock market and a revision of the accounting profession's regulations. They also contributed to an economic recession in the US.[31]

2. The EEA

The EEA also experienced many instances of corruption since the turn of the century. Scandals in the EEA were created by firms such as Marconi in the United Kingdom (UK), Elan in Ireland, EmTV in Germany, Vivendi in France, Swiss Life in Switzerland, Bipop in Italy, and Royal Ahold in the Netherlands.[32] For example, Royal Ahold, the world's third largest food retailer, admitted to overstating its earnings by more than $500 million in 2001 and 2002.[33] The cases in the EEA show that European managers manipulate finances just like managers of companies based in other countries around the world.[34] Clearly, accounting standards worldwide must be reviewed in order to prevent these wrongdoings.

3. Why Standards Must Be Improved

Accounting scandals affect everyone. Their effects are greatest on employees who lose jobs and pensions, investors who lose savings, and creditors who lose revenue.[35] In response to the recent scandals, the European Commissioner, Frits Bolkestein, remarked on the importance of top quality accounting standards for the well being of the global economy.[36] In addition, the chief executive officer (CEO) of the defunct Arthur Andersen told a US congressional committee that the accounting profession must make reforms.[37] Specifically, he acknowledged the need to improve our systems of regulation and discipline.[38]

A reform of accounting standards would show standard setters the areas that lack controls. For example, the FASB and the SEC recently reviewed the US's system of accounting regulation to prevent situations like that caused by Enron from reoccurring. Their cooperation resulted in the creation of the Sarbanes-Oxley Act of 2002.[39] The Sarbanes-Oxley Act toughens reporting requirements, establishes criminal penalties, provides protection for whistleblowers, creates a board to oversee the FASB,[40] demands corporate governance reforms, and restricts the functions an auditor can perform for his clients.[41] Regulations such as those found in the Sarbanes-Oxley Act are necessary throughout the world. IFRS, which would globalize successful regulations, would help to prevent accounting scandals and the economic crises they cause.

III. THE ULTIMATE GOAL - IFRS AND THE IASB

A. The First Attempt to Form an International Accounting Standard Setter

For decades national standard setters have acknowledged the need for IFRS. During the 1970s, foreign competitors began to acquire significant portions of domestic companies' product markets.[42] In 1973, accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the UK and Ireland, and the US founded the International Accounting Standards Committee (IASC) to harmonize their national accounting standards in order to have a better understanding of each others' capital markets.[43] Throughout its life, the IASC established forty-one IAS, thirty-four of which are still in use.[44]

Unfortunately, the techniques of the IASC proved to be unsuccessful, and thus the IASC survived for only twenty-seven years.[45] From the 1970s through the 1990s, the IASC had a part-time board with assistance from a small staff,[46] placing a heavy burden on the international board. A part-time board could not complete the task of developing IAS to replace national accounting standards.[47] In addition, the board's standards were open for different interpretations around the world.[48] Because the standards were created to apply to transactions in many business environments that had significant variations from each other, the standards were broad and provided little actual guidance.[49] Furthermore, the US, the UK, Canada, and Australia believed their accounting standards were better and chose not to adopt IAS.[50] By the 1980s all of the founding countries had introduced their own accounting standards.[51] IAS were adopted primarily in developing countries that did not have their own accounting standards.[52]

B. The Current International Accounting Standard Setter

1. The IASB's Structure

Under pressure from the US SEC, the IASC reorganized in May of 2000.[53] On April 1, 2001 the IASB officially replaced the IASC.[54] The IASB continues to use the standards issued by the IASC, referred to as IAS.[55] New standards developed by the IASB are labeled IFRS.[56]

The structure of the IASB is similar to the FASB in the US.[57] Those who established the IASB carefully planned its structure in order to receive approval from most every nation.[58] In planning, the main goal was to ensure that all individuals involved in the standard setting process were justly represented and also independent.[59] In addition, the structure's guidelines require that each individual has technical expertise in the area of international financial reporting.[60] Entities in the structure include the IASC Foundation (IASCF), the IASB, the Standards Advisory Council (SAC), and the International Financial Reporting Interpretations Committee (IFRIC).[61]

The IASCF has three functions. First, it presides over and fundraises for the IASB.[62] Second, it appoints the members of the IASB, the SAC, and the IFRIC.[63] Finally, it provides information about the IASB and IFRS to the public.[64] The nineteen trustees on the full-time board are appointed for a maximum of two three-year terms.[65] As required by the constitution of the IASCF, six trustees represent North America, six represent Europe, four represent Asia-Pacific, and three represent individual countries which are chosen to provide geographical balance.[66] The three other countries are currently South Africa, Switzerland, and Brazil.[67]

The new IASB consists of twelve full-time members and two part-time members.[68] They are selected by the IASCF based on their technical skills and background experience in international business.[69] The IASCF's constitution promulgates that, "[t]o achieve a balance of perspectives and experience, a minimum of five members of the IASB shall have a background as practicing auditors, a minimum of three a background in the preparation of financial statements, a minimum of three a background as users of financial statements, and at least one an academic background."[70] Each of the fourteen members has an equal say in the development of proposals for standards.[71] Seven of the full-time board members are each assigned to help one of seven of the IASC founders converge their nation's accounting standards with IFRS.[72] The board members may serve up to two five year terms.[73] In addition, the IASB employs a large staff to help with its research and publications.[74]

The SAC advises the IASB and the IASCF.[75] The council meets formally with the IASB in open meetings at least three times a year.[76] The council is made up of approximately forty-five members who are located in different areas of the world.[77] The developing regions that have members on the SAC include Africa, Asia, Central and Eastern Europe, Latin America, and the Middle East.[78] Developing countries also have representation on the SAC through two international organizations: the World Bank and the International Monetary Fund.[79] Other organizations that take part in meetings of the SAC include but are not limited to the European Commission (EC), the Financial Services Agency under the Government of Japan, the International Organization of Securities Commissions (IOSCO), the Basel Committee on Banking Supervision, and the US Securities and Exchange Commission (SEC).[80] Members of the SAC may serve an unlimited number of three year terms.[81] It should be noted that unlike in the World Trade Organization (WTO), in which the EU has greater voting power than the US,[82] the EU has equal voting power to the US on the SAC.[83] The argument behind this is that the economic size of the entire EU is comparable to the US. For example, as of the third quarter of 2003, both the US and the EU had estimated gross domestic products (GDP) close to 2 trillion euro.[84]

Finally, the IFRIC reviews the standards of the IASB in order to eliminate broad statements that may be open to differing interpretations.[85] The IFRIC also addresses new accounting issues of widespread concern that are not covered in IFRS.[86] Meetings of the IFRIC are held approximately bimonthly and are open to public observation.[87] Like members of the SAC, members of the IFRIC may serve an unlimited number of three year terms.[88]

2. The IASB's Agenda

The IASB has three major projects on its agenda. First, it clarifies any inconsistencies and ambiguities in IAS developed by the IASC. Second, it assigns liaisons to help with the convergence of national accounting standards to international accounting standards.[89] Finally, it is actively developing IFRS. The IFRS currently on its agenda include insurance contracts, performance reporting, business combinations, stock compensation, revenue recognition, consolidations, and small private enterprises.[90]

As mentioned earlier, each founder of the IASC developed its own accounting standards. Their accounting standards have many differences, which are based on the needs of their business markets and their overall value placed on accounting standards. The IASB and national standard setters have a large task in choosing which standards are suitable for IFRS.

Despite the tremendous amount of work that goes into creating IFRS, adoption of the standards is completely voluntary unless it is required by the terms of a trade agreement.[91] Furthermore, national standard setters are not required to adopt all standards. This privilege is shown in some of the actions taken by the countries that have chosen to adopt IFRS. For example, the EC has a careful process for choosing which IFRS are acceptable for practice within the EEA.[92] Rather than electing to adopt the whole set of IFRS at one time, it can begin implementing the use of individual IFRS.[93]

IV. PERSPECTIVES AND ACTIONS OF VARIOUS COUNTRIES

To date, over sixty countries require IFRS for companies that list their securities on public stock exchanges. These include eleven countries from Asia,[94] seven countries from Central America,[95] five countries from Europe,[96] three countries from the Caribbean,[97] and three countries from South America.[98] In addition, Nicaragua, South Africa, the EEA, and the US have agreed to adopt IFRS by 2005. Russia will require IFRS by 2007. Furthermore, Canada, Chile, and Mexico are working on converging their standards to IFRS, although they have not set a date by which their convergence will be achieved. Some of the countries that have plans to adopt IFRS currently allow the use of some IFRS, but other countries prohibit the use of IFRS until an agreed upon date.[99] There are also over thirty nations that currently prohibit the use of IFRS. Although these countries prohibit the use of IFRS and have not made a commitment to their future use, some are working on converging their standards to IFRS for a future commitment. These include seventeen countries from Asia,[100] eight countries from Africa,[101] five countries from South America,[102] three countries near Australia,[103] and one country in Europe.[104] Over forty other countries either allow the use of IFRS or require it for only some companies.[105]

Two national regulatory boards contributing significant efforts towards IFRS are the SEC in the US and the EU's executive branch, the EC. Each regulatory board has different reasons behind monitoring the progress of the IASB.[106] The SEC would like to eliminate significant differences between US GAAP and IFRS.[107] On the other hand, the EC would merely like to approve of IFRS before it requires them.[108]

This section will discuss the current accounting practices in the US and EEA. It will include the US's and EEA's perspectives towards their current accounting practices as well as commitments that the countries have made to IFRS. In addition, with regard to developing countries adopting IFRS, this section will focus on Mexico and Chile, two countries that are receiving assistance with their convergence to IFRS from developed nations.

A. Financial Reporting in the US

Many experts feel that the system for standard setting in the US is superior to that of other countries because of the standard setters' hard work in developing high quality standards.[109] Those who help develop accounting standards in the US work diligently to ensure that financial reports are useful to their readers.[110] Standards in the US are created with input from the public, the FASB, the American Institute of Certified Public Accountants, and the SEC.[111] Input from these different groups ensures that each accounting standard meets the needs of the entire economic community. The success of the system in the US is shown by the IASB's adoption of a structure similar to the US's standard setting body, the FASB.[112] Below is a description of the US's standard setter and regulator as well as a summary of their roles in the development of IFRS.

1. Current Structure

a. Standard Setters

The US's standard setter comprises three organizations: the Financial Accounting Foundation (FAF), the Financial Accounting Standards Board (FASB), and the Financial Accounting Standards Advisory Council (FASAC).[113] The FAF oversees and fundraises for the FASB.[114] It also selects the members of the FASB and the FASAC.[115] The FASB, which is the most significant of the three organizations, reviews old and establishes new financial reporting standards.[116] Standards issued by the FASB become US GAAP, which accountants are required to adhere to.[117] The Board works to ensure that its standards meet the expectations of the economic community as a whole.[118] In order to do so, it follows a system of due process before adopting a standard, allowing the public to comment on potential standards.[119] It employs seven full-time members who serve renewable five-year terms.[120] It also employs task forces to aid it with its many research, analyses, and writing projects.[121] Finally, the FASAC advises the FASB on major issues and projects.[122] The FASAC also selects and organizes the FASB's task forces.[123]

b. Regulator

The US's regulator is the SEC, which was created in 1934 to aid stockholders in understanding the value of companies' securities through enforcing standards for financial reporting.[124] Prior to 1934 the US did not have many standards for financial reporting nor did it enforce existing standards.[125] The deceit that emerged because of the lax regulations was a significant factor for the Depression of the 1930s. The SEC now gathers audited financial statements from companies whose securities are publicly traded to verify that those companies and auditors are in compliance with the standards set by the FASB.[126] If the SEC finds that a company is not in compliance it can prevent that company from issuing or trading its securities on the stock exchanges.[127] In addition, the SEC is involved with the FASB through setting its agenda, raising accounting issues, and developing criteria for proposed standards.[128] The policies of the SEC make it the strictest regulator in the world today.[129]

2. Provisions for Foreign Companies Listing in the US

As a nation with a highly respected economy and strict accounting standards used worldwide,[130] the US must ensure that it forces companies listing on US stock exchanges to accurately present their financial information.[131] Because the accounting standards of most nations are not as rigorous as those in the US, the SEC requires foreign companies listing on stock exchanges[132] to reconcile their material differences to US GAAP using a Form 20-F.[133] The form is often time-consuming to complete, having three parts and a total of nineteen items.[134] A completed set of financial statements using a Form 20-F can range from about one hundred to 500 pages. Although the SEC recognizes that foreign companies that are required to file the form feel that it is tedious, the SEC believes that it must require the form to maintain the level of compliance it has achieved.[135]

3. The Role of the FASB and SEC in Developing IFRS

Both the FASB and the SEC acknowledge that IFRS are the standards of the future and are therefore contributing to their development.[136] This section will explain the actions these organizations have taken to harmonize US GAAP with IFRS.

a. FASB

In October 2002, the FASB and the IASB agreed to work together to find and eliminate differences among their respective accounting standards by 2005.[137] By working with the IASB, the FASB hopes to improve the quality and international comparability of US standards.[138] The FASB is also contributing to the development of IFRS in hopes that its efforts will ensure that new IFRS will be acceptable in the US.[139] The FASB and the IASB plan to continue working together after 2005 to maintain the use of IFRS in the US.[140]

b. SEC

The SEC commended the FASB and the IASB for the agreement they made in 2002.[141] Since then, it has been monitoring and commenting on the actions of these organizations as they amend their standards to gain similarities.[142] The SEC has stated that it will only accept IFRS if they constitute a comprehensive body of accounting, result in comparability and transparency, provide full disclosure, and will be strictly enforced.[143] Upon the SEC's acceptance of IFRS, foreign companies using IFRS in the US will no longer feel that it is burdensome to file a Form 20-F, because they will already be using the accounting standards of the US.[144]

B. Financial Reporting in the EEA

1. General Overview of Structure and Regulatory Bodies

Each country in the EEA has its own standard setting body with different structures and operations.[145] Because there are twenty-eight different standard setters in the EEA, a description of each of their structures is beyond the scope of this paper. Rather, I will give a general idea of accounting issues facing the EEA.

In some countries accounting standards apply to all financial statements, while in other countries accounting standards only apply to the statements of companies that list their securities on public exchanges.[146] In addition, not all of the countries consider accounting standards to be mandatory.[147] In some cases, standards are only considered recommendations.[148] For example, companies in Austria must only explain their departures from Austrian accounting standards if they are challenged in court.[149]

Lax auditing and regulation in many European countries demonstrates Europe's lack of compliance with accounting standards. For example, authorities in the Netherlands depend on the public rather than auditors to dispute errors in financial reports.[150] Furthermore, German companies and auditors frequently ignore domestic accounting standards.[151] This fact was proven when the chairman of the German Accounting Standards Board asked the SEC to help force German companies to comply with German accounting standards.[152] In addition, Jim Leisenring, who has debated accounting standards with business professionals all over the world, stated that only the SEC and the Ontario Securities Commission strictly enforce accounting standards.[153]

Finally, the Financial Reporting Review Panel (FRRP) in the UK provides an example of dissimilar financial statements as well as divergence from accounting standards. The FRRP requires companies in the UK to report with UK GAAP, but allows companies based in foreign countries to report with IFRS, US GAAP, or, if they are based in the EU, the national GAAP of the company's home country.[154] All together, twenty-seven different sets of GAAP may be used on the London Stock Exchange.

Furthermore, unlike the SEC, which requires compliance, the FRRP merely urges companies that do not accurately present their financial positions to revise their financial statements.[155] In response to the FRRP's demands, some companies refuse to restate prior period earnings, claiming that their auditors would lose respect from the public.[156] In fact, external auditors often give clean opinions to listed companies instead of commanding them to revise their statements.[157] As a result of the disputes between companies and the FRRP, the FRRP concluded that material errors need not be restated, but

fundamental errors do require a restatement.[158] Unfortunately, "fundamental" was never defined.[159] Companies in the EEA have many other ways in which they disregard financial reporting standards. In order for users of financial statements to benefit from comparable international standards, the EEA must adopt and enforce similar standards in each of its member nations.

2. Attempts Within The EEA to Improve Enforcement

The EEA has recognized that it must improve the level of compliance within its Member States.

> In the last few years, the EC has stimulated a process for raising the standard of the regulation of financial reporting in the securities markets…. In 2001 [a committee issued a report] that set forth an elaborate plan for the development of securities market regulation as well as a framework to govern the development. This was followed by the issuance…of a Proposed Statement of Principles of Enforcement of Accounting Standards in Europe…by the Committee of European Securities Regulators, which will be used for developing and recommending standards of best practice for use by regulators in the Member States.[160]

Yet, the framework and statement of principles that were recently established do not guarantee that companies, auditors, and regulators in the EEA will comply with accounting standards. Enforcement of accounting standards will still fall under the jurisdiction of each Member State.[161] Yet, an international set of accounting standards, which the EEA has agreed to adopt, will ensure that all countries are at least abiding by the same standards, thus increasing the chances for comparability.

3. The EC's Process for Evaluating and Endorsing IFRS

In June 2002 the EU proclaimed that all companies traded on European stock exchanges must adopt those IFRS approved by EC by 2005,[162] or 2007 if they also list on the US exchanges.[163] Many companies in the EEA have already begun using IFRS. In fact, as of November 2002, two companies in France and sixty-six companies in Germany were using IFRS.[164] Yet, countries in the EEA will not adopt all IFRS. Only those IFRS that have received approval from the EC, and are therefore endorsed, will be required. The EC has established committees, which are described below, to aid it in reviewing and selecting which IFRS to endorse.

First, the EC collects the opinions of private interest groups that are members of the European Financial Reporting Advisory Group. Accounting specialists in the group form a subcommittee, known as the Technical Expert Group (TEG). The TEG is in charge of reviewing the process of using the accounting standard.[165] Also, when a draft of an IFRS is in the exposure stage, the TEG, like other interested parties, submits its opinions directly to the IASB.[166]

Second, each of the EU governments has selected representatives to serve on the Accounting Regulatory Committee (ARC).[167] The function of the ARC is to advise the EC on which standards to endorse.[168] With these two committees, the EC will follow a simple procedure: after an IFRS is issued, the EC will receive recommendations from the TEG and then discuss the recommendations with the ARC. If all goes well, the new standard will become a requirement for EEA companies to follow.[169]

C. The US and Canada Aid Mexico and Chile in Improving Their Standards

1. Overall Activities of Canada, Chile, Mexico, and the US

In 1993 the US, Mexico, and Canada signed the North American Free Trade Agreement (NAFTA). Since its inception, trade between the NAFTA countries has almost doubled.[170] These countries acknowledge that similar accounting standards are necessary for a successful increase in cross-border business. Therefore, their national standard setters are finding ways to eliminate differences between their national accounting standards and principles. In addition, because the NAFTA countries plan to eventually admit Chile into the free trade agreement,[171] Chilean accounting standards are included in the research.

The national standard setters from the four countries, which are the Canadian Institute of Chartered Accountants, the *Instituto Mexicano de Contadores Públicos A.C.* (IMCP), the FASB in the US, and the *Colegio de Contadores de Chile A.G.*, formed a standing committee titled the American Free Trade Agreement (AFTA) Committee for Cooperation on Financial Reporting Matters to eliminate differences among the accounting standards.[172] This committee meets annually.[173] The AFTA Committee follows four steps to accomplish its task.[174] First, the committee identifies differences in accounting standards among the four countries.[175] Second, it creates an understanding of the differences that result from the different economic environments.[176] Third, it provides recommendations for eliminating significant differences in the accounting standards.[177] Finally, it monitors the work of other organizations, especially the IASB.[178] The benefits of its mission are twofold. First, standard setters from the four countries will have improved overall quality and comparability of accounting standards.[179] Second, users of the accounting standards and financial reports may find it easier to compare businesses in the four countries.[180]

In accomplishing its goals, the AFTA Committee is in charge of researching and reporting its findings in a report titled "Significant Differences in GAAP in Canada, Chile, Mexico, and the United States."[181] The report was first published in 1995 through a joint effort between the US, Canada, and Mexico.[182] It was included in a report titled "Financial Reporting in North America."[183] The report was updated in 1996, 1998, and 2000, eventually adding Chile to the list of countries involved.[184] Each update to the report discusses the progress made towards eliminating differences between the countries.[185] For example, the report that was updated in 2000 lists ten areas of major difference and twenty-eight less significant areas of difference.[186] One area from each list has been resolved since the first report was published.[187]

2. Issues Facing Each Country

Canada was aware of the need to improve its standards and was prepared to do so sooner than Mexico and Chile were. Prior to NAFTA, Canada and the US were involved in their own free trade agreement.[188] Furthermore, many Canadian companies have US parents or a substantial amount of US investors and customers.[189] In total, Canada has been revising its standards to conform to those of the US and the IASB since 1996.[190] Canada also has advantages that Mexico and Chile lack when harmonizing their standards with the US. For example, US and Canadian economies are generally stable. On the other hand, Mexico and Chile must consider the effects of inflation when measuring the value of assets, liabilities, and equity.[191]

Contrary to the position of Canada, the convergence of Mexican standards to those of the US or the IASB was not foreseeable prior to the signing of NAFTA. Yet, since it opened its borders to foreign business Mexico has significantly increased the number of transactions it performs with other nations and has learned of the need for high-quality accounting standards. Mexico now has more free trade agreements than any other nation, further demonstrating the need for comparable accounting standards.[192] The IMCP acknowledges the impact that globalization is having on Mexico. In order to develop financial reporting standards for Mexico's expanding market, the IMCP has restructured its standards setting process to be similar to the process of the IASB.[193]

Both Mexico and Chile have a significant number of financial reporting standards that differ from US GAAP and IFRS.[194] There are also several instances of financial reporting standards issued in Mexico and Chile on matters not considered by the IASB.[195] Mexico and Chile and primarily revising their standards to be similar to those of the US and Canada. If there is no mutually agreed upon standard in a particular area, Mexico and Chile must implement the standards of the IASB.[196] Yet, if the IASB has not developed a standard for the issue, Mexico and Chile must apply the most suitable standard available.[197] In practice, under such circumstances Mexico and Chile most often apply standards issued by the FASB.[198]

The joint efforts of the US, Canada, Mexico, and Chile should provide a model for other developing countries wishing to adopt IFRS. Many developing countries are gaining a larger role in the global market through multilateral and bilateral trade agreements with developed countries. Developed countries should assist their developing partner countries that are not already practicing IFRS in adopting IFRS, just as Canada and the US are helping Chile and Mexico through the AFTA Committee. Mexico and Chile will be able to adopt and enforce IFRS much sooner than other developing countries not already using IFRS, because these two countries have two experienced countries guiding them along the way.

V. OVERALL ANALYSIS

This section will discuss the strengths and weaknesses of IFRS and the IASB. It will conclude with recommendations for improvement.

A. Strengths

1. Strengths of A Uniform Set of Financial Reporting Standards

I have determined six strengths that IFRS will provide. The first three refer to improvements in financial reporting. The last three refer to improvements to our global market as a result of IFRS.

One strength of an international set of financial reporting standards is that it will provide increased comparability. Investors, creditors, and other users of financial statements will be able to easily compare domestic and international companies. This larger pool of companies will improve the decision-making abilities of financial statement users.

A second strength of an international set of standards is that it will provide increased relevance. For example, because of the tedious reconciliation required of foreign companies wishing to list their securities in the US, foreign financial reports are published up to six months after domestic reports,[199] thus reducing their relevance.[200] A uniform set of standards would eliminate the need for a reconciliation, which would thus enable companies to file their financial statements in foreign markets sooner and would make information more current. In addition, IFRS will require more accuracy to be used in domestic financial reports, as opposed to current standards that often allow estimates such as those mentioned previously in reference to Enron and Daimler Benz.[201]

A third strength of harmonized accounting standards is that the standards will be carefully selected and will likely be the best of those currently in existence. The IASB is selecting parts of its IFRS from standards currently in use. The IASB

receives help in reviewing and improving these standards from national standard setters, public interest groups, the SAC, and IFRIC. Although this task has led to many debates between national standard setters that feel their standards are superior to others, the national standard setters will eventually overcome these issues, providing the world with a widely accepted set of standards.

A fourth strength of harmonized accounting standards is that countries, especially developing ones, are likely to attract more foreign investment. As users of financial statements gain an understanding of firms in foreign countries, they will not experience high levels of uncertainty or risk when deciding to invest in those firms. A uniform set of standards will make investors and creditors comfortable with international business.

A fifth strength of harmonized accounting standards is that companies will have more opportunities to list their securities on exchanges in foreign countries. Because of the increase in worldwide trade and other aspects of globalization, companies want to list their securities on exchanges in different countries. Yet regulators are selective about which accounting standards they will accept from companies before allowing them to trade their securities in the regulator's country. For this reason, companies may view accounting standards as a non-tariff barrier to trade.[202] For example, the process for reconciling financial statements to US GAAP, which can be costly and time-consuming, deters companies that might otherwise list their securities in US markets.[203] In fact, there are approximately 2,300 foreign corporations that can list their securities on the NYSE but choose not to because of the high costs associated with the reconciling to US GAAP.[204] A set of uniform standards will allow companies to list their securities in every country that adopts these standards, allowing them the benefits, which are explained below, afforded with listing securities on exchanges in foreign markets.

Overall, listing a company's securities in a foreign market helps the company become knowledgeable and skilled in an international market, which enhances the value of the securities in the home market.[205] Companies that list in foreign countries have a broader pool of investors and more sources for lower costs of capital.[206] In addition, a company can avoid risks from within its domestic market by listing its securities in a foreign market.[207] Furthermore, companies listed in foreign markets enjoy greater media coverage, increased liquidity, exposure to analysis, and broader appeal for their products.[208] Finally, a secondary listing reduces the possibilities of takeovers through force or tender offers.[209] The benefits received from listing in a foreign market explain the desire for uniform accounting standards.

A sixth strength of a uniform set of international standards is created as a result of the increase of securities listed in foreign markets. IFRS will increase the chances for improving the level of compliance with accounting standards. Because firms will be able to list their securities in foreign markets, various securities regulators will review their financial statements. The chances of compliance increase when the number of regulators reviewing financial statements increases.

2. Strengths of the IASB

One strength of the IASB is its structure. The IASB has in place a democratic system, in which it hears opinions from the IASCF, the SAC, the IFRIC, and the public. This structure assures that multiple viewpoints are heard before a standard is determined to be of high quality and acceptable to adopt.

A second strength is the IASCF's requirement for a full-time board. This will ensure that adequate time and thought is put into reviewing standards and implementing convergence. The composition of the board also ensures that various educated opinions are heard, as the board members represent different nations and have backgrounds in various aspects of accounting.

A third strength of the IASB is that it has recognized the importance of listening to the concerns of developing countries and includes them as members in its organization. Few international standard setters, such as the International Standards Organization (ISO),[210] include the opinions of developing countries. These countries have unusual economic circumstances that can impair their ability to apply IFRS, but they can also illustrate bizarre situations that may arise in developed countries as well. For example, while many developing countries frequently experience fluctuations in the value of their currency, developed countries experience more stability in their currency's value. Yet, it would be unrealistic to assume that a developed country would never experience an extreme fluctuation in inflation.

A fourth strength of the IASB is that it has separated itself from the task of enforcing the standards it issues. The separation of standard setters and regulators provides for a system of checks and balances. Therefore, the accountant that prepares the financial statements is not the same individual who audits the financial statements. This system is necessary to perform comprehensive audits and to maintain high ethical standards in accounting. Although some scholars argue that this is a weakness,[211] it is not unlike the separation of the FASB and the SEC in the US. Similar to the US, the IASB depends on the International Organization of Securities Commissions (IOSCO) to maintain compliance with IFRS.[212] Over one hundred national regulators and securities exchanges are members of the IOSCO.[213] The purpose of the IOSCO is to improve markets by promoting high standards of regulation and surveillance.[214] The IASB has been cooperating with the IOSCO for over a decade, which includes representation of the IOSCO on the IFRIC.[215] Its role with the IASB has been that of identifying and resolving issues of importance in regards to IFRS.[216] Therefore, the IOSCO can assist the IASB in eliminating the acceptance of broad interpretations of IFRS.

B. Weaknesses

It is clear that the members of the IASB have considered each aspect of an efficient standards organization and attempted to include these aspects in its standards and structure. Yet, the IASB has weaknesses that should be resolved. The following are weaknesses of IFRS, the IASB, and the process of adopting IFRS.

A first weakness of IFRS is that they currently do not include enough standards for comprehensive financial reporting. To date there are only thirty-six standards in place.[217] In comparison, the US FASB has issued 150 standards.[218] It is difficult for a nation to agree to require IFRS with so few standards in place. National standard setters can only assume that the future IFRS will fit their needs. Therefore, the IASB might gain more constituents if it had more standards.[219]

A second weakness is that standard setters currently are not adopting the full set of standards. Rather, standard setters are adopting only certain IFRS or choosing to alter IFRS to better fit their needs. If standard setters only adopt selected international standards, firms complying with the combination of national and international standards will not have the ease of listing their securities in foreign markets. Furthermore, nations that alter IFRS will not be putting forth their best effort towards improving our global market.

A final weakness of IFRS is that they may force companies to modify their business operations.[220] The new standards will result in different numbers for financial ratios. As users of financial statements compare ratios within similar industries, managers will attempt to improve their company's ratios. This may lead the managers to change some of their company's practices.

A weakness of the IASB's structure lies in its enormous amount of constituents. As the number of nations complying with IFRS grows, the method of due process will become increasingly complex and time-consuming.

A second weakness of the IASB is that the IASCF does not employ enough liaisons for the many nations that are allowing IFRS. There are only seven liaisons, each of whom only focuses on his home country's acceptance of IFRS. The many other nations that accept IFRS have a disadvantage compared to those seven countries. More nations might be tempted to adopt IFRS if they had their own liaison.

Finally, the process of adopting IFRS has weaknesses as well. The IASB does not provide any technological guidance to aid its constituents in implementing IFRS. Firms that are now beginning to implement IFRS are scrambling to find new information systems in time to meet deadlines.[221] Unfortunately, there has been little success in this area. These firms have made much progress, only to find errors and need to start at the beginning again.[222] The chaos is frustrating and not appealing to other nations that are considering adopting IFRS.

C. Recommendations

The IASB has shown through its current structure and its method of due process that it can become an efficient global standards organization. Eventually, the few weaknesses that IFRS and the IASB have may be resolved to become underlying strengths. This section will list steps necessary for the IASB to eliminate its weaknesses or improve its overall success.

First, the IASB should not allow countries to decide which standards it will and will not adopt. IFRS should come as a "package." If a country decides that it wants to adopt IFRS, it should have to comply with all of the IASB's standards.[223]

Second, the IASB must pressure developing nations that are gaining many jobs from developed nations to adopt IFRS. For example, many firms are moving to India, which does not permit IFRS for their domestically listed companies.[224] The private firms that are moving to foreign countries for lower costs of capital may also have new accounting standards to comply with. The accounting standards of these developing countries may be less stringent than the companies' former accounting standards. Investors, creditors, and consumers may still trust these companies based on their prior experiences, yet these companies now have the opportunity to provide these businesspeople with altered or false information. In order to avoid any falsified sale of stock or financial statements, the IASB must pressure these nations and companies. Because of globalization, it is more important than ever for nations to begin adopting IFRS.

Third, the IASB should provide more liaisons. The liaisons could work with nations that are willing to adopt IFRS, or focus on other countries that are not anxious to adopt IFRS. Countries like Mexico and China, which play a great role in our global market, should have liaisons assisting them. Employing more liaisons may also simplify the method of due process as the number of constituents grows.

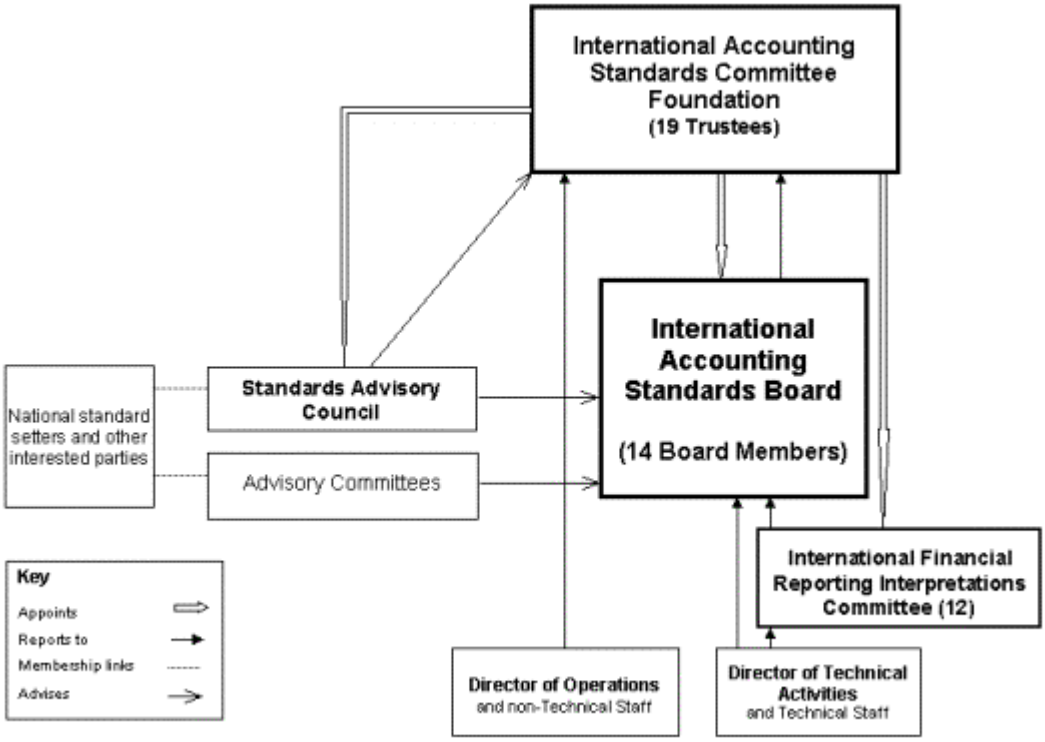
Finally, in order to provide more incentive to adopt IFRS, the IASB should do what it can to simplify the process of implementing IFRS. Perhaps the IASB can help fund a project to create a basic accounting information system. This will eliminate the stress of meeting deadlines for companies implementing IFRS. This will also provide these companies with more time to find a suitable accounting information system without losing sight of their primary operations.

VI. CONCLUSION

This essay is a basic introduction to IFRS and the IASB. It explains the reasons why our global economy needs a single set of accounting standards, who is developing accounting standards for international use, and the related actions of countries in the EEA and North America.

The next twelve months will show significant changes in financial reporting worldwide. These changes will benefit and strengthen the bond of our global capital market. In addition to improving accounting in the long run, IFRS and the IASB will serve as a model for other international standards organizations. It will be interesting to see how countries, developed and developing, will cooperate in creating a better understanding for users of financial statements and participants in our global capital market.

Appendix



Source: IASB, *Structure*, at http://www.iasb.org (last visited March 16, 2004).

Glossary

AFTA	American Free Trade Area
ARC	Accounting Regulatory Committee
CEO	Chief Executive Officer
EC	European Commission
EEA	European Economic Area
EU	European Union
FAF	Financial Accounting Foundation
FASAC	Financial Accounting Standards Advisory Council
FASB	Financial Accounting Standards Board
FRRP	Financial Reporting Review Panel
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMCP	*Instituto Mexicano de Contadores Públicos A.C.*
IOSCO	International Organization of Securities Commissions

ISO	International Standards Organization
NAFTA	North American Free Trade Agreement
NYSE	New York Stock Exchange
SAC	Standards Advisory Council
SEC	Securities Exchange Commission
TEG	Technical Expert Group
UK	United Kingdom
US	United States
WTO	World Trade Organization Glossary

Footnotes

[1] Fritz Bolkestein, European Commissioner for the Internal Market. Quoted in *EU Commission Welcomes Commitment to Reach Accounting Standards Convergence by 2005*, at http://www.eurunion.org/news/press/2002/2002055.htm (Oct. 29, 2002).
[2] *Id.*
[3] The International Accounting Standards Board is the organization in charge of developing international financial reporting standards.
[4] The European Economic Area includes the twenty-five countries of the European Union (EU) and Iceland, Liechtenstein, and Norway. These three countries are not members of the EU but are members of the EEA. They are not required to fulfill all the responsibilities of the EU, but they must comply with the EU's Accounting Directives and Regulations. Deloitte, *Use of IFRS for Reporting by Domestic Listed Companies, By Country*, at http://www.iasplus.com (2004). The twenty-five members of the EU include Belgium, Germany, France, Italy, Luxembourg, the Netherlands, Denmark, Ireland, the United Kingdom, Greece, Spain, Portugal, Austria, Finland, Sweden, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. Countries currently applying for membership in the EU include Bulgaria, Romania, and Turkey. Europa, *European Governments Online*, at http://europa.eu.int/abc/governments/index_en.htm (last visited Jan. 7, 2004).
[5] IASB, *FAQs - What are accounting standards?*, at http://www.iasb.org (last visited May 9, 2004).
[6] FASB, *FAS 121: Accounting for the Impairment of Long-Lived Assets and for Long Lived Assets to be Disposed Of*, Financial Accounting Research Systems Compact Disc, Paragraph 5 (1995).
[7] *Id*. at Paragraph 6.
[8] DONALD E. KIESO, JERRY J. WEYGANDT & TERRY D. WARFIELD, INTERMEDIATE ACCOUNTING 2 (11th ed. 2004).
[9] *Id.*
[10] *Id. at* 32.
[11] Presentation by Jim Leisenring, Member of International Accounting Standards Board, at Michigan State University, East Lansing, Michigan (Oct. 30, 2003); WULF KOEPKE, DIE DEUTSCHEN, *Die Wiedervereinigung Deutschlands* 191 (5th ed. 2000).
[12] KOEPKE, *supra* note 11, at 191, 194-195.
[13] GARY E. CLAYTON, ECONOMICS: PRINCIPLES AND PRACTICES 474 (1995).
[14] Leisenring, *supra* note 11.
[15] BEVERLEY EARLE, FILIBERTO AGUSTI & RICHARD SCHAFFER, SELECTED CHAPTERS FROM INTERNATIONAL BUSINESS LAW AND ITS ENVIRONMENT 251-252 (5th ed. 2003).
[16] Paulette L. Stenzel & Linica Suceava, *Using Mexico and Romania as Focus Countries to Add Depth to an International Business Law Course*, 18 J. LEGAL STUD. EDUC. 21, 39 (2000).
[17] Id. at 36.
[18] Paulette L. Stenzel, *International Privatization*, 2 ENCYCLOPEDIA OF BUSINESS 1040, 1041 (Jane A. Malonis editor) (2d. ed. 2000).
[19] Tracy N. Tucker, *It Really Is Just Trying to Help: The History of FASB and Its Role in Modern Accounting Practices*, 28 N.C. J. INT'L L. & COM. REG. 1023, 1032 (2003); Paulette L. Stenzel, *Why and How the World Trade Organization Must Promote Environmental Protection*, DUKE ENVTL L. & POL'Y F. 1, 7-8 (2002).
[20] KIESO, ET AL., *supra* note 8, at 33 (11th ed. 2004).
[21] *Id*.
[22] Many nations have developed their own set of generally accepted accounting principles (GAAP). GAAP are established either by an authoritative accounting standard-setting body or through their universal acceptance. Accounting issues may have more than one principle that is generally accepted. As explained in KIESO, ET AL., *supra* note 8, at 6.
[23] James D. Cox, *Regulatory Duopoly in US Securities Markets*, 99 COLUM. L. REV. 1200, 1203 (1999).
[24] *Id*.
[25] *Id.* at 1212.

[26] Businesspeople will still need to understand the different legal and regulatory environments of a country before understanding one of its firm's financial statements.
[27] The manipulation of financial reporting has only taken place for decades because financial reporting has only been required and enforced since the 1930s. During the 1930s the US SEC and other regulatory bodies around the world were created. Prior to the creation of the SEC many financial transactions were built upon fraud. SEC, *The Investor's Advocate: How the SEC Protects Investors and Maintains Market Integrity - Creation of the SEC*, at http://www.sec.gov/about/whatwedo.shtml (last updated July 21, 2003).
[28] From a settlement on charges made between Enron and the SEC as cited by John R. Emshwiller, *US Investigators Open New Front in Enron Case*, WALL STREET JOURNAL, Oct. 10 2003, at A3.
[29] Thos E Capps, *Rebuilding Trust in Corporate America*, 69 VITAL SPEECHES OF THE DAY, Feb. 15, 2003, Issue 9, at 273.
[30] KIESO, ET AL., *supra* note 8, at 1 & 17.
[31] James M. Kohlmeyer III & Larry P. Seese, *Sarbanes-Oxley Act of 2002: What You Need To Know*, Issue 702, NEW ACCOUNTANT 11 (2003).
[32] Luca Enriques, *Bad Apples, Bad Oranges: A Comment from Old Europe on Post-Enron Corporate Governance Reforms* 38 WAKE FOREST L. REV. 911, 913 (2003).
[33] *Id*.
[34] John Berlau, *EU Wants US to Play By Its Rules*, INSIGHT ON THE NEWS: WASHINGTON, Apr. 1-Apr. 14, 2003, at 32.
[35] KIESO, ET AL., *supra* note 8.
[36] Bolkestein, *supra* note 1.
[37] *News: Enron Accounts Probed*, ACCOUNTANCY: LONDON, Jan. 2002, at 1.
[38] *Id.*
[39] Sarbanes Oxley Act. Pub.L. No. 107-204, 116 Stat. 745 (2002) (codified in scattered sections of 11 U.S.C., 15 U.S.C., and 28 U.S.C.)
[40] The oversight board is named the Public Company Accounting Oversight Board.
[41] Marilyn F. Johnson, Chapter 1 - Financial Accounting and Accounting Standards, Fall 2003, 4 (2003) (Available from the author, Michigan State University, East Lansing, Michigan.)
[42] Cox, *supra* note 23, at 1207.
[43] IASB, *History*, at http://www.iasb.org (last visited May 9, 2004).
[44] *Id*.; IASB, *Standards*, at http://www.iasb.org (last visited Nov. 16, 2003).
[45] IASB, *History*, *supra* note 43.
[46] Stephen A. Zeff, *U.S. GAAP Confronts the IASB: Roles of the SEC and the European Commission*, 28 N.C. J. INT'L L. & COM. REG. 879 (2003).
[47] *Id.*
[48] Cox, *supra* note 23, at 1208. For example, in 1995 there were no significant differences between IAS and North American standards. Yet, after the revising and issuing new IAS, there are now over thirty significant differences between IFRS and North American standards. THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS, COLEGIO DE CONTADORES DE CHILE A.G., INSTITUTO MEXICANO DE CONTADORES PÚBLICOS A.C., & FINANCIAL ACCOUNTING STANDARDS BOARD OF THE UNITED STATES, SIGNIFICANT DIFFERENCES IN GAAP IN CANADA, CHILE, MEXICO, AND THE UNITED STATES 4, 5 & 11 (2000).
[49] *Id.* See FASB, *The IASC-US Comparison Project: A Report on the Similarities and Differences Between IASC Standards and US GAAP* 57 (1996).
[50] Zeff, *supra* note 46, at 880.
[51] *Id*.
[52] *Id*.
[53] IASB, *History*, *supra* note 43.
[54] *Id*.
[55] IASB, *FAQs*, *supra* note 5.
[56] *Id.*
[57] Leisenring, *supra* note 11; Zeff, *supra* note 46, at 885-886.
[58] IASB, *Structure*, at http://www.iasb.org (last visited May 9, 2004).
[59] *Id.*
[60] IASB, *IASC Foundation Constitution*, http://www.iasb.org (last visited May 9, 2004).
[61] A diagram of the IASB's structure can be found in the Appendix.
[62] IASB, *IASC Foundation Constitution*, *supra* note 60.
[63] *Id.*
[64] IASB, *The IASB: Who We Are*, at http://www.iasb.org (last visited Nov. 16, 2003).
[65] IASB, *IASC Foundation Constitution*, *supra* note 60.
[66] *Id*.

[67] IASB, *Trustees*, at http://www.iasb.org (last visited March 16, 2004).
[68] Zeff, *supra* note 46, at 886.
[69] IASB, *IASB*, at http://www.iasb.org (last visited May 9, 2004).
[70] IASB, *IASC Foundation Constitution*, *supra* note 60.
[71] IASB, *IASB*, *supra* note 69.
[72] IASB, *Liaison Countries*, at http://www.iasb.org (last visited Jan. 8, 2004); Zeff, *supra* note 46, at 886. Although nine nations created the IASC, only seven of those nations have liaisons to assist with convergence. IASB, *IASCF Constitution*, *supra* note 66. The seven liaisons assist their country of origin. IASB, *IASB Members*, at http://www.iasb.org (last visited May 9, 2004). Mexico and the Netherlands are the two IASC founders that lack liaisons.
[73] IASB, *IASC Foundation Constitution*, *supra* note 60.
[74] *Id*.
[75] IASB, *The IASB: Who We Are*, *supra* note 64.
[76] IASB, *Standards Advisory Council*, at http://www.iasb.org (last visited May 9, 2004).
[77] *Id.*
[78] IASB, *Standards Advisory Council Members*, at http://www.iasb.org (last visited May 9, 2004).
[79] *Id.*
[80] *Id.*
[81] IASB, *IASC Foundation Constitution*, *supra* note 60.
[82] Under the WTO, the EU has one vote for each of its member nations. BEVERLY EARLE, FILIBERTO AGUSTI, & RICHARD SCHAFFER, SELECTED CHAPTERS FROM INTERNATIONAL BUSINESS LAW AND ITS ENVIRONMENT 142 (5th ed. 2003).
[83] Leisenring, *supra* note 11.
[84] Eurostat, *First Estimates for the Third Quarter of 2003*, at http://europa.eu.int/comm/eurostat/Public/ datashop/print-product/EN?catalogue=Eurostat&product=2-03122003-EN-AP-EN&mode=download (last visited Dec. 27, 2003). The US's GDP was reported as 1,841,492.4 trillion euro. The EU's GDP was reported as 1,948,849.7 trillion euro.
[85] IASB, *International Financial Reporting Interpretations Committee*, at http://www.iasb.org (last visited May 9, 2004).
[86] *Id.*
[87] *Id.*
[88] IASB, *IASC Foundation Constitution*, *supra* note 60.
[89] Leisenring, *supra* note 11.
[90] *Id.*
[91] The adoption of IFRS is voluntary to most countries. Yet, some trade agreements, such as the European Economic Area, require adoption of IFRS. Zeff, *supra* note 46, at 882.
[92] *Id.* at 889.
[93] *Id.* at 890.
[94] Armenia, Bangladesh, Cyprus, Republic of Georgia, Jordan, Kuwait, Kyrgyzstan, Lebanon, Nepal, Oman, and Tajikistan.
[95] Costa Rica, Dominican Republic, Guatemala, Haiti, Honduras, Jamaica, and Panama.
[96] Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, and Ukraine.
[97] The Bahamas, Barbados, and Trinidad and Tobago.
[98] Ecuador, Guyana, and Peru. Deloitte, *supra* note 4.
[99] Mexico and Chile use IFRS if their national GAAP lack standards for particular issues. THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS, ET AL., *supra* note 48, at 1.
[100] Cambodia, India, Indonesia, Israel, Japan, South Korea, Malaysia, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Taiwan, Thailand, Uzbekistan, and Vietnam.
[101] Benin, Burkina Faso, Ivory Coast, Ghana, Mali, Niger, Togo, and Tunisia.
[102] Argentina, Brazil, Colombia, Uruguay, and Venezuela.
[103] Australia, Fiji, and New Zealand.
[104] Moldova. Deloitte, *supra* note 4.
[105] *Id*.
[106] Zeff, *supra* note 46, at 892.
[107] *Id.*
[108] *Id.*
[109] Cox, *supra* note 23, at 1206.
[110] KIESO, *supra* note 8, at 30.
[111] *Id.* at 6-9, 12.
[112] *Id.* at 16.
[113] *Id.* at 8.
[114] *Id.* at 11.
[115] *Id.* at 11.

[116] *Id.*
[117] *Id.*
[118] *Id.* at 9.
[119] *Id.*
[120] *Id.* at 8.
[121] *Id.* at 11.
[122] *Id.*
[123] *Id.*
[124] *Id.* at 6.
[125] SEC, *supra* note 27.
[126] KIESO, ET AL., *supra* note 8, at 6; Zeff, *supra* note 46, at 888.
[127] *Id.* at 7.
[128] Zeff, *supra* note 46, at 888.
[129] *Id.* at 880.
[130] For example, companies in Guam, which has no domestic stock exchange, adhere to US GAAP. Furthermore, companies in Switzerland can choose to adhere to either IFRS or US GAAP. Deloitte, *supra* note 4.
[131] Zeff, *supra* note 46, at 885.
[132] The SEC does not require those foreign companies which list their stocks on over-the-counter exchanges to reconcile their differences to US GAAP.
[133] Zeff, *supra* note 46, at 884.
[134] SEC, Form 20-F, at http://www.sec.gov/about/forms/form20-f.pdf
[135] Zeff, *supra* note 46, at 884.
[136] FASB: *International Accounting Standard Setting: A Vision for the Future*, (1998) as cited by Tucker, *supra* note 18, at 1032-3.
[137] SEC, *Actions by FASB, IASB Praised*, at http://www.sec.gov/news/press/2002-154.htm (Oct. 29, 2002); European Union in the US, *EU Commission Welcomes Commitment to Reach Accounting Standards Convergence by 2005*, at http://www.eurunion.org/news/press/2002/2002055.htm (Oct. 29, 2002).
[138] FASB, *Overview of FASB's International Activities*, at http://www.fasb.org (last visited Dec. 2, 2003).
[139] *Id.*
[140] European Union in the US, *supra* note 137.
[141] SEC, *SEC Chief Accountant Welcomes Actions by FASB ad IASB*, at http://www.sec.gov/news/press/ 2003-178.htm (Dec. 19, 2003).
[142] *Id.*
[143] Cox, *supra* note 23, at 1209.
[144] It is unclear as to whether or not the Form 20-F will be eliminated. Regardless, if foreign companies merely have to insert their own financial figures into the Form 20-F a significant portion of the burden will be relieved. Zeff, *supra* note 46, at 888.
[145] FÉDÉRATION DES EXPERTS COMPATABLES EUROPÉENS, ACCOUNTING STANDARD SETTING IN EUROPE 4, at http://www.iasplus.com/resource/feestudy.pdf (2000).
[146] *Id.* at 5.
[147] *Id.*
[148] *Id.* at 6.
[149] *Id.* at 8.
[150] Zeff, *supra* note 46, at 880.
[151] *Id.* at 881.
[152] *Id.*
[153] Leisenring, *supra* note 11.
[154] EU securities exchanges allow companies based in the EU to report with their national GAAP in compliance with the EU's principle of "mutual recognition." Zeff, *supra* note 46, at 884.
[155] *Id.* at 880-1.
[156] Leisenring, *supra* note 11.
[157] Zeff, *supra* note 46, at 881.
[158] Leisenring, *supra* note 11.
[159] *Id.*
[160] Zeff, *supra* note 46, at 891.
[161] *Id.* at 892.
[162] European Union in the US, *supra* note 137; Zeff, *supra* note 46, at 888.
[163] Berlau, *supra* note 34.

[164] A list of companies using IFRS can be found at IASB, *Companies Using IFRS*, at http://www.iasb.org (last updated Nov. 19, 2002).
[165] Zeff, *supra* note 46, at 889.
[166] *Id.*
[167] *Id.*
[168] *Id.*
[169] *Id.* at 890.
[170] Paulette L. Stenzel, *Doing Business In Mexico*, IO TRIUMPHE, Spring 2001, at 6.
[171] Paulette L. Stenzel, *The North American Free Trade Agreement*, 2 ENCYCLOPEDIA OF BUSINESS 1324, 1330 (Jane A. Malonis editor) (2d. ed. 2000); THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS, ET AL., *supra* note 48.
[172] THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS, ET AL., *supra* note 48, at 1.
[173] *Id.*
[174] *Id.* at 2.
[175] *Id.*
[176] *Id.*
[177] *Id.*
[178] *Id.*
[179] *Id.* at 1-2.
[180] *Id.* at 2.
[181] *Id.*
[182] *Id.* at 1.
[183] *Id.*
[184] *Id.*
[185] *Id.* at 2.
[186] *Id.* at 5 & 11. Examples of areas of major difference include effects of changing prices, business combinations, consolidation and equity accounting, foreign currency transaction, and research and development. Examples of less significant areas of difference include changes in accounting principles, financial instruments, prior-period adjustments, discontinued operations, and capitalization of interest.
[187] *Id.* The two areas that have been resolved between the four countries are accounting for income taxes and the cash flow statement.
[188] Free Trade Agreement, July 1989, U.S.-Can. 27 I.L.M. (1988). EARLE, *supra* note 82, at 110.
[189] THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS, ET AL., *supra* note 48, at 19.
[190] *Id.* at 15.
[191] *Id.* at 6.
[192] Stenzel, *Doing Business In Mexico*, *supra* note 170, at 7.
[193] THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS, ET AL., *supra* note 48, at 19.
[194] *Id.* at 3.
[195] *Id.*
[196] *Id.* at 19.
[197] *Id.*
[198] *Id.*
[199] Huong N. Higgins, *Disclosure of Foreign Companies Registered in the US*, Issue 702, NEW ACCOUNTANT 19, 20 (2003).
[200] Cox, *supra* note 23, at 1216.
[201] *Id.* at 1203; Emshwiller, *supra* note 28.
[202] Lisa M. Brown, *United States Accounting Standards: Do the SEC Requirements Regarding US GAAP Violate GATS?*, 28 N.C. J. INT'L L. & COM. REG. 1007, 1021 (2003).
[203] Cox, *supra* note 23, at 1216.
[204] *Id.* at 1213. In regards to high costs associated with a foreign reconciliation, *see* Gary C. Biddle & Shahrokh M. Saudagaran, *The Effects of Financial Disclosure Levels on Firms' Choices Among Alternative Foreign Stock Exchange Listings*, 1 J. INT'L FIN. MANAG. & ACCT. 55 (1989).
[205] *Id.* at 1219.
[206] *Id.*
[207] *Id.*
[208] *Id.* at 1220.
[209] *Id.*
[210] Paulette L. Stenzel, *What Do the ISO 14000 Environmental Management Standards Mean for Mexico?*, ALSB NEWSLETTER 12 (2001). (Available from the author at 315 Eppley Center, Broad College of Business, Michigan State University, East Lansing, Michigan, 48824).

[211] Cox, *supra* note 23, at 1208.
[212] *Id.*
[213] KIESO, ET AL., *supra* note 8, at 6.
[214] IOSCO, *General Information on IOSCO*, at http://www.iosco.org (November 2003).
[215] IASB, *International Organization of Securities Commissions (IOSCO)*, at http://www.iasb.org (last visited Dec. 2, 2003); IASB, *IFRIC Members*, at http://www.iasb.org (last visited May 9, 2004).
[216] IASB, *Frequently Asked Questions - What is IOSCO, and What Role Does It Have in IASB Activities?*, at http://www.iasb.org (last visited Apr. 18, 2004).
[217] IASB, *Summaries of International Financial Reporting Accounting Standards*, at http://www.iasb.org (last visited Aug. 28, 2004).
[218] FASB, *FASB Pronouncements*, at http://www.fasb.org (last visited Aug. 28, 2004).
[219] Yet, we must also have patience with the IASB. The IASB has only been in operation with a full-time board for three years, while the FASB has been in operation for twenty-one years. As the age of the FASB shows, it will take time for the IASB to draft more standards.
[220] Zeff, *supra* note 46, at 888.
[221] Lesley Meall, *Technology: IAS/IFRS - Can you comply?*, Issue 1329, 133 ACCOUNTANCY 73 (2004).
[222] *Id*.
[223] The IASB has issued a standard requiring its constituents to adhere to all IFRS in existence at the time of adoption (IFRS 1). IASB, *Web Summaries - IFRS 1: First-Time Adoption of International Financial Reporting Standards*, at http://www.iasb.org (last visited Sep. 6, 2004). Yet, to date, the EEA has not agreed to comply with IAS 32 or 39. Victoria Furness, *Countdown to IAS*, FINANCIAL WORLD 44 (July 2004). This demonstrates the tedious task of cooperating with national standard setting organizations to ensure that all IFRS will be adopted, showing that IFRS 1 is still difficult to implement.
[224] Deloitte, *supra* note 4.