# Accounting for the Future

## Reducing the Differences between International and Domestic Accounting Standards and Becoming a Better Global Citizen While Maintaining Autonomy

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Abstract

In recent times, the FASB and the IASB have heavily discussed bringing the United States on board to utilize the same IFRS accounting standards that much of the rest of the world uses. At this present time, IFRS adoption in the United States is no longer actively being considered, and alternative means of convergence have become the preferred method for supporting globalization. This paper posits that in order to serve a worldwide business community, the principles-based approach is more conducive to the flexible modern environment. The practices currently utilized to jointly-research and co-develop accounting standards by both the FASB and the IASB are instrumental in promoting efficiency and increased perspective as new, joint standards are instituted. A continued movement toward principles or objectives-based accounting as previously suggested by the SEC is suggested as the best way to unify the United States with the rest of the world within the accounting field.

# Accounting for the Future

## Reducing the Differences between International and Domestic Accounting Standards and Becoming a Better Global Citizen While Maintaining Autonomy

The United States has developed and continually maintains a special set of accounting rules and regulations. This framework, titled Generally Accepted Accounting Principles (GAAP) governs the accounting rules that all publically traded firms in the United States must report in accordance with. Bradshaw (2010) and colleagues write that the private body of the Financial Accounting Standards Board (FASB) has been tasked with the maintenance of GAAP, although the SEC ultimately bears the responsibility (p. 125). The SEC (2008) relates that the United States maintains a world class capital market (p. 15). An excellent market necessitates excellent accounting.

Just as the FASB is largely responsible for the "rules" by which publically-traded companies in the United States report their financial information, many other localities in which business is conducted have their own rules that outline the way companies must present their reported numbers within their financial statements. Some countries have what is known as "local GAAP." Yallapragada, Roe and Toma (2013) indicate that much like the United States, these countries have maintained their own framework of accounting principles, according to which companies operating in those localities need to comply (p. 26). Still other nations comply with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (the IASB). Many varied nations utilize IFRS, and according to the IFRS Organization (2015), this list includes the entirety of the European Union (Application, p. 1). Because of the notability of many of the IFRS users, and because oftentimes the United States conducts business with and within countries that use IFRS, the question arises as to whether or not the United States ought to adopt IFRS as well, or at least involve itself with IFRS. There are several ways this could be done. According to Payne and Ranagan (2008), the five different levels of IFRS involvement are: “Adoption, Convergence, Harmonization, Adaption and informed deliberation” (p. 16). This thesis argues mainly for the third item mentioned: harmonization. In order to better serve the business community and the world at large, this method represents the best of the five for the United States to work with in the coming years.

There are a number of possible reasons for the proposed transition of the United States towards IFRS standards. Hail, Leuz & Wysocki (2010) note that compatibility of numbers and more useful information is often presented as one of the biggest reasons for desiring IFRS adoption (p. 356). Smith (2012) relates that highly comparable disclosure would result from worldwide IFRS adoption (p. 19). Hail et al. also suggest that the quality of the statements is not so important to investors as consistency from one entity to the other (2010, p. 358). The SEC has communicated their belief that one unified set of standards will benefit outside “investors” (2008, p. 17). Tyson (2011) assembled the common themes of comment letters on the SEC’s “Roadmap to Convergence” and found that top reasons for desired convergence are: “1) increased competitiveness of U.S. issuers in capital markets; 2) a lower cost of capital-especially for pre-parers [SIC] and investors; 3) process and cost efficiencies for multinational U.S. issuers and auditors; and 4) improved ability for investors to assess investment options” (Tyson, p. 30). In general, comparability and costing less over time are the overriding themes in the debate.

Unfortunately, the issue is incredibly complex. Smith believes that GAAP is uniquely designed to work according to the local environment in the United States (2012, p. 21). Gray's (1988) oft-cited work reveals that a given culture's dynamic is apparent in their accounting standards (p. 5). This reveals that GAAP is representative of the United States as a whole. In contrast, Smith relates that IFRS is focused on the world as a whole, not any single country (2012, p. 21).

Should accounting rules be governed by the general preferences of the locality the rule-issuing body happens to be in? That question must be answered while considering accounting for what it is. When solely utilized for financial statement reporting, accounting is the consolidation of the thousands of messy transactions into neat, ordered statements. In order to maintain some order in the chaos, a framework through which to report the numbers at the end of the year is established and enforced. Author Bruce Pounder (2010) writes that detailed expectations for financial reporting will be presented within a conceptual framework (p. 60). The result is that financial statements provide an artificially contrived view of a company, as per the rules issued by the standard setters. The AICPA (n. date) shows that both GAAP and IFRS exist as different accounting frameworks (p. 5). The existence of established frameworks enables company's management to be spared some work by not forcing them to reinvent the wheel every time they draw up financial statements, and those outside the company are spared the painful and unnecessary details of the inner workings of the company, as someone else (the standard setting bodies in a given region) has mandated what is necessary to report and what is not. Just like management is responsible for making certain estimates and making decisions, so do the issuing bodies are tasked with the tough judgement calls with regard to accounting methods. The accounting standard setters act as the “managers” of the accounting profession.

Accounting is not a hard science. It is open for interpretation, and incredibly subjective. This is not a bad thing necessarily, because it allows accountants to approximate an estimate of what makes for good representation, and portray the inner workings of the company with some degree of freedom. West (2006) believes that the extent to which individual judgement is necessary becomes the issue in the GAAP/IFRS question (p. 20). West relates that recently, less individual judgement is needed due to the GAAP standards containing rules (p. 20).

The adoption of IFRS standards by the United States has been proffered as a way to decrease long-term cost and increase efficiency. Wright and Hobbs (2013) say that an all-encompassing IFRS framework would somewhat mitigate the need to do work twice, and would simplify the work in situations where multiple frameworks are utilized (p. 22). But is it the best method to utilize for this purpose, or are there other, more effective alternatives? The United States is currently very soft in their approach to IFRS integration. There are several reasons for this. Tyson (2011) offers several reasons companies oppose consolidation with IFRS:

1) Loss of control in the United States over standards setting

2) Large transition costs to implement IFRS, including employee training and IT systems-especially during a period of severe budget shortfalls and an economic crisis.

3) Absence of any evidence indicating that IFRS was superior to U.S. GAAP

4) Lack of clarity regarding the future roles of FASB and the SEC after conversion;

5) Disallowance of LIFO under IFRS

6) Lack of industry-specific guidance in IFRS (p. 30).

In addition to the practical concerns of publically traded companies, other issues that relate to actual enforcement of IFRS exist. Reilly (2011) shows that unlike local GAAP, there is no native body that will ensure all the rules of IFRS are followed. He reveals that the rigor with which the rules will be followed will be different in different locations, and that “there is not even a single securities regulator within the European Union” (p. 874). This is a classic argument that boils down to “if they does not have to follow the rules, then neither do I.” While rather self-serving, it is a genuine concern. If everyone is required to abide by a certain framework, everyone ought to be held to the same standard. If not, the ones who are regulated more heavily than their counterparts are at a disadvantage, if only for the fact that they are more likely to be caught in fraudulent activity. Erchinger (2012) believes that IFRS adoption could expose firms operating in the United States to increased legal risk, (p. 250), although the author also says that the SEC has found that these fears are at least somewhat exaggerated (Erchinger, 2012, p. 250, 255). Reilly says that if IFRS cannot be enforced uniformly, then comparability is compromised, and the biggest reason for worldwide IFRS usage is nullified (2011, p. 874).

But what about the potential advantages of adoption/convergence? According to Cohen & Company (2014), IFRS adoption or total convergence is one solution, but as of now, it is not considered optimal (para 5). As IFRS convergence has been so long discussed, and as so many accounting and regulatory bodies are at least somewhat familiar with the convergence and potential adoption project, the good things about the project should be salvaged and used as a starting point to address the concerns that led to considering IFRS adoption in the United States in the first place. The SEC and the FASB have enough work to perform already within their domestic span of influence.

**Current Convergence Status**

The IFRS convergence project has been a long time in coming. Filomia-Aktas (2013) notes that the two standards have inspired aspects of each other for more than ten years (p. 8). Yallapragada et al. describe the six major milestones that were accomplished to bring convergence to fruition, starting with the Norwalk Agreement, and ending with the 2011 SEC Staff Paper (2013, p. 26-27). However, even with all of this work towards the goal, GAAP and IFRS still exist as separate reporting entities. In an open letter to the IASB and standard setters in general, Miller and Bahnson (2014) relate that the decision comes down to which standard setter will better assist the SEC in ensuring the health of the markets within the United States, not simply a decision of which framework should be utilized (p. 24). McEnroe & Sullivan (2014) say that as of 2012, the FASB has shown their belief that the United States may continue to engage with outside standard setters, but that the business-as-usual methods of combining GAAP and IFRS are at an end (p. 18). However, as of 2011, the IASB (2012) has offered their help in areas where accounting standards differ (Trustees Strategy Review p. 6). Additionally, the IFRS Foundation maintains that they are committed to improving accounting standards through increased IFRS interaction through the help of “relevant public authorities” (Trustees Strategy Review, 2012, p. 6). The IASB and their constituents’ willingness and ability to work together with outside bodies bodes well for improved financial reporting in the United States. The authorities in the United States must be willing to work alongside them for their efforts to bear fruit in the United States.

If the FASB, SEC, and IASB are willing to work together and have their standards mirror each other; as they seem to be doing now, that will allow both standard setters operational freedom and the ability to self-regulate, to an extent. Bradshaw et al. espouse this new style of convergence (2010). One standard setter has no way of “forcing” the other standard setter to accept their way of doing things or manner of thinking, and so in areas where disagreement arises, the two parties are free to continue to operate the way they would like to. But this compromise negates some of the benefits that are derived from having unified standards, because certain reporting methods will differ based upon the locality in which an entity operates and reports. These methodological differences are partly due to the previously mentioned local frameworks (Yallagaprada et al. 2013 p. 26).

Standing in contrast to the IASB and the FASB constantly working together through convergence and joint projects, “harmonization” of standards is often mentioned as a convergence alternative. Payne and Ranagan write that “harmonization involves working individually to bring one's standards in line with either international accounting standards or an alternative best practice. Therefore, one could be working toward convergence and harmonization at the same time or on one but not the other” (2008, p. 17). If there are fewer differences between the two standards, the few differences that do arise can be explained away in the financial statement notes so that investors will not be misled. “Mostly” converged standards that share much of the principles-based philosophy are the real ideal here. Ehoff and Fischer (2012) write that IFRS does not give the same level of instruction as GAAP, and that IFRS gives mostly general guidance (p. 15). This provides evidence revealing that IFRS is less restrictive, and therefore global standards based in IFRS would not be as restrictive as those currently used in the United States, if the domestic standards were the ones substantially changed.

## Giving Up Control as a Result of Increased International Involvement

An issue that arises in integrating IFRS at any level is compromise. As noted earlier, different cultures result in different accounting standards (Gray 1988 p. 5). In order to align different standard setters, some compromise would have to take place. This would result in the giving up of some control, and allowing ideas that either party may not fully agree with to become actual accounting standards. The United States has demonstrated that it is not interested in the level of compromise that is required for full IFRS adoption. According to Claudette van der Merwe's (2013) writing, a study by Deloitte titled the "Third Global IFRS Banking Survey" revealed that those who did not think IFRS-GAAP conversion would happen totaled 88% (p. 26). At the same time, some level of convergence and a reduction of differences are needed, so some level of compromise will still have to be undergone. Due to the size and scope of both the FASB and the IASB, the question will arise as to who will be the one to compromise? As the IASB is used by so many countries, it makes more sense from a global perspective for the United States to be the one who converts over to the system used by more nations. It is likely that the United States would have to be willing to compromise "the most" in order to align their standards, no matter the scope, in the event of worldwide IFRS. Heavy compromise for the United States is not ideal unless the benefits outweighed the costs.

Alternatively, to avoid the same level of compromise that submission to the IASB would necessitate, joint standard setting may occur.

Concurrent FASB-IASB standard setting is a standard that is currently being used in joint projects (FASB Activities, 2015 para. 4). This indicates that this method seems to be thought by those directly involved to be a good way to embrace the current difficult situation faced by the standard setters. Bradshaw et al. argue that the IASB is relatively underdeveloped, and as such, the FASB provides improving assistance (2010, p. 125). Joint standard setting accomplishes this indirectly. Underdevelopment can be a major concern. Simply because the IASB is newer, and because of the multitude of nations that utilize it, there will be areas that require improvement.

In a worldwide atmosphere, another step the United States could undertake in addition to continuing to work with and advising the IASB that would likely be helpful in initiating authentic and responsive change would be a deliberate and direct move towards a principles-based accounting framework. This would be a major step forward towards global citizenship as it would free up the current accounting process to more closely resemble IFRS-based accounting without any formal conversion to IFRS. The United States could do this work on its own, but it would require dedication to implement. This shift, if carried out under the domestic authority, would resemble the harmonization as described by Payne and Ranagan (2008, p. 17). The FASB has communicated in the past that if principles are the base of an accounting framework, that framework must be whole and not lacking (2004, p. 2). The FASB is highly capable of implementing this shift. Unfortunately, in the highly-regulated atmosphere of the United States, freedom in many areas is getting squeezed from all sides. Anantharaman, (2012) says that the accounting profession moved from a system of autonomy to a system in which SEC is involved in regulatory matters (p. 57). This is a troubling development for those who would have accounting be entirely self-regulated.

## Streamlining

Even if convergence is not optimal, the betterment of worldwide accounting standards should be the goal of all countries and accounting bodies. It is in the United States' best interest to maintain a healthy, ethical worldwide market to the extent that it can feasibly and economically do so. Working with the IASB for the betterment of both jurisdictions can help to improve worldwide financial markets. Because they are not governmental organizations, the FASB and the IASB are able to interact with more freedom and less political restriction than would be allowable or even feasible if national governments were responsible for coming up with accounting standards. The SEC has expressed the opinion that that standard setting should occur through an "independent" system (2008, p.23). Governmental intervention certainly compromises the "independence" of accounting standard development. The FASB must keep in mind who they answer to at the end of the day: investors, and the United States government. Miller and Bahnson write that just as the FASB is slow to issue new statements and resolutions on accounting issues due to internal policies and procedures, a larger group of people dealing with an even larger set of standards have even greater challenges and are likely to move even more slowly (2014, p. 24). The SEC affirms this (2008, p.47). Increased FASB-IASB collaboration will have to be checked to ensure that response times to issues are not materially affected, in no matter what capacity the two standard setters work together.

Regardless of the potential conflicts, the occurrence of increased collaboration is demonstrated consistently in how the FASB and the IASB have interacted with regard to their shared convergence efforts. This very phenomenon has been demonstrated consistently in how the FASB and the IASB have interacted regarding their shared convergence efforts. As Yallapragada et al. note, talks of a global accounting framework have been going on for years now, with IFRS convergence really starting in the early part of the 21$^{st}$ century (2013, p. 26). However, obviously convergence or adoption has not happened yet. Part of this is due to practicality. Execution is prone to unforeseen circumstances and difficulties in all areas of life, and something as complex as worldwide convergence is not exempt from this unfortunate reality.

In the "Rules and Procedures" statement issued by the FASB to describe the process they use for creating and maintaining GAAP, the FASB does not mention the IASB or IFRS by name (FASB, 2013). However, the FASB indicates their goal of a converged financial framework (FASB, 2013, p. 3) and that they receive input from a variety of sources (FASB, 2013 p. 2-3). This demonstrates that they are still independent, but they are open to suggestion, much like the IASB.

The mission statement of the FASB reveals that their objective is to ensure that effective financial recording and representationally faithful reports are produced by private organizations for those who have use for that type of financial information (FASB, 2013, p. 2). The mission of the FASB resounds solidly with the objective of accounting as a whole. For research and advice, the FASB turns to the Financial Accounting Standards Advisory Council (FASAC) and others (FASB, 2013, p. 8). According to the FASB website, their advisors also include the Investor Advisory

Committee (IAC), the Not-for-Profit Advisory Committee (NAC), and the Small Business Advisory Committee (SBAC) (FASB, Advisory, 2015 n. pag.). This advisory arrangement has the potential to act as a huge step forwards towards the existence of accounting standards that have few differences across international lines, as long as the FASAC and other advisory bodies are willing to act as an independent entity and communicate to the FASB solid, independent thought and research and not just what they believe the FASB wants to hear. This will help with a move towards principles-based accounting, and away from the legalistic current structure of the GAAP framework.

The IASB's model for development is contrasted here with that used in the United States. The IASB is structured in a way that allows for a great deal of suggestion (How We Develop IFRS, 2014). As described by them, their procedures for developing pronouncements move along according to six segments:

1. Setting the agenda
2. Planning the project
3. Developing and publishing the Discussion Paper, including public consultation
4. Developing and publishing the Exposure Draft, including public consultation
5. Developing and publishing the Standard
6. Procedures after an IFRS is issued (How We Develop IFRS, 2014)

In their request for advisory services, they begin with step 3 by publishing a letter and submitting it to the public for feedback (Development of a Discussion Paper, 2014). This consultation process is helpful, but can be quite time consuming. Step 4 is like this step, but is more formal and official (Development of Exposure, 2014).

This public creation style is helpful as it includes a wide variety of opinions, and there is plenty of opportunity for problems to be caught, pointed out and resolved. However, the FASB's method is more focused. This method also keeps the power of development and creation of standards less firmly within the IASB's grasp than the current process for GAAP development allows the FASB. The power is less centralized in the IASB approach (if only due to the sheer variety of the individuals consulted) and this allows more public opinion to find its way into the statements issued than the more centralized approach taken by the FASB. This resonates well with the IASB's intentions, as Smith says that the IASB maintains a concerted effort to ensure accounting solutions for a worldwide collection of firms and investors (2012, p. 21). This method is a little bit more like a democracy and less like the current republican structure of the FASB, which is interesting to think about, given the United States' staunch advocacy and obsession with democracy as the governing principle, whereas Europe, where IFRS is heavily used, has traditionally had a governing structure without the same level of emphasis on freedom. In the area of accounting, their methods are reversed, to a small extant. If the FASB can utilize more public opinion through working with the IASB while still maintaining the efficiency of the GAAP development system, the best of both worlds may be had.

## Collaboration: A Continuation of Current Trends

As of 2012, the FASB and the IASB have indicated that they are both committed to achieving unity and excellence through a worldwide accounting framework drawn up without governmental supervision (Joint Update Note, p. 3). This suggests that in spite of all the changes, they are both still committed long-term to this goal. If the goal is world-wide comparability, a dose of realism needs to be instituted. The SEC notes that technology has facilitated the shrinking of the modern world (2008, p. 11). But, the world is still vast. Hard work and productivity may drive economies, but governments are behind the wheel, especially in countries with nationalized economies that allow less freedom in the capital markets. In order to create an atmosphere in which multiple standard setters are able to maintain control over their respective domains, a common group advisory board that is actually instrumental in developing financial standards would be helpful in making sure that standard setters stay on the same page and would facilitate the transformation of the GAAP operational procedures described earlier. For both the FASB and the IASB, current collaboration methods can be continued, with the direction headed by a standard advising body. This is starting to be seen in how the IASB and FASB have set up their relationship in recent years. Currently, the FASB and IASB work jointly on many issues. The FASB website defines "Joint Projects" as situations in which excellent accounting rules are co-developed by the FASB as the IASB as a collaborative effort (Activities, 2015. para. 4). Additionally, the FASB relates that the extent of their involvement with some other IASB projects is keeping abreast, and participation (Activities, 2015, para. 3). This must be understood to mean projects that the two groups are not working jointly on. The minimal involvement allows the FASB to keep their interests and responsibilities within the United States, at the expense of opportunity to potentially influence worldwide financial reporting for the better. However, even this limited involvement is an excellent starting point because it enhances collaboration and brings the two parties together in a way that familiarizes the two parties with each other and keeps them focused on the same issues. Bradshaw et al. believe that having the United States participate in standard setting now would reduce the differences when the United States took up IFRS (2010, p. 125). Even if total convergence never comes, the differences reduced are still a tangible benefit of the effort expended on the part of the FASB. The Financial Accounting Foundation (FAF) announced that the FASB now enjoys membership on a committee to the IASB, the Accounting Standards Advisory Forum (ASAF) (FAF, 2013, para. 1). As described on the IFRS website, the goal of the ASAF is to allow contributors to collectively expend their effort to forward the objective of an excellent world-wide reporting conceptual framework (IFRS Advisory Forum, 2015, para. 1).

The increase in interaction between the FASB and the IASB, even though it is currently through joint project teams and hopefully a future fully-joint, shared advisory board still helps to develop “harmonized” financial reporting that allows both standard setters to remain neutral and independent. Increased teamwork also represents a symbolic move on the part of the FASB, as it embraces the IASB as a maturing body. Likely, the IASB will be happy to receive any assistance or involvement it can from the FASB and the SEC.

## A Discussion of Principle vs. Rules Based Accounting in the United States

Phillips, Drake and Luelhfing (2010) point out that the IFRS framework is “principles”-based while the United States is rules-based, at least prior to convergence efforts (p. 18). Wright and Hobbs confirm this (2010, p.22). Concluding their study, Phillips et al. indicate that internally, those inside the company would lean toward principles-based accounting, while external stakeholders lean towards rules-based (2010, p. 25). The inherent freedom of IFRS-based accounting requires more discretion in accounting and financial reporting (Wright & Hobbs, 2010, p.22). Nobes (2009) points out that when situations arise that are not easily understood, standard setters have to decide whether to issue specific accounting instructions or a vague idea for accountants to follow (p. 27). Because the issuance of financial statements is primarily for the benefit of those outside the company, it makes sense to cater to their wishes as opposed to those of management. For the development of the future framework of accounting, whether to take a principles-based approach or one based upon rules becomes the dividing question, although West argues that the issue is responsibility for making decisions based on principles-based accounting (2002 p. 20).

This begs the question: Does the freedom fewer rules would allow compromise accounting standards and the resulting financial reporting? If analyzing this situation while only considering the viewpoints of external stakeholders, it is quite possible. Ehoff and Fischer believe that the best approach is probably somewhere between the two (2012, p. 16). Outside investors like rules based accounting better (Phillips et al., 2010, p. 25). As investors are not involved with actually generating the financial statements, the amount of work that goes into them is not likely appreciated. Additionally, this preference may be more due to conditioning and tradition more than a definite, individually concluded preference. In an address to the AICPA, Erhardt noted that investors are simply uncomfortable with IFRS as they are unfamiliar with it (2014, para. 3). Bradshaw et al. write that firms that utilize an accounting framework that investors have knowledge of are more likely to attract investor involvement (p. 119). However, as

IFRS has grown in influence, investors may become more familiar with this framework, and may become more trusting in the future. Investors in the United States are used to the rules-based framework, simply because it is the currently used standard. Because of the commonality of the idea, these investors will likely associate the term "rules-based" with customary GAAP and naturally prefer it without any real basis for their reasoning besides love of tradition. The fact that many countries utilize the principles-based IFRS without real investment problems on the part of outside parties shows that a principles-based approach is not inherently flawed or problematic. Ehoff and Fischer say that principles-based accounting that allows more judgement is simpler to use (2012, p. 16). This means that the goal of basing accounting in principle and allowing more judgement on the part of those producing financial information is not laziness, but freedom and simplicity. An excellent way to think of this freedom is that it is not intended to allow companies the chance for abuse, but rather, to allow them to more closely resemble the rest of the world in their financial reporting.

## Moving Forward Domestically

Taking all of this information into account, it becomes clear IFRS integration is only welcome and desirable up to a point. Ehoff and Fischer point out that giving up control on the part of the SEC is not helpful to investors (2012, p. 16). To remain in control and to be able to maintain the efficiency and authority that is necessary, decisional power will have to remain seated with domestic authorities.

In the past, this has not been problematic. The SEC weighed rules versus principles-based accounting against each other, and showed that if a principles or objectives-based view is held by standard setters, the rules they provide are less likely to conflict with each (2003, n. pag.). The FASB has indicated that, at least as intended by the SEC, principles and objectives-based accounting are very close to each other (2004, p. 2). These recommendations by the SEC were over a decade ago, but they demonstrate that the SEC may not be hostile towards IFRS integration, or ensuring that principles in the form of objectives are integrated into the GAAP framework in the United States. In their response to the study, the FASB stated that they were working to implement the objectives into GAAP (2004, p. 3). However, the fact that GAAP is still widely considered "rules-based" is evidence that the shift has not been as successful as the SEC may have hoped. Working in tandem with the SEC, The FASB will likely be able to simply communicate their wish to utilize a more principles-based approach as both an indicator of good faith with the rest of the world, and as a move towards a more open and inclusive accounting environment that reflects the worldwide sentiments in the marketplace. The SEC has affirmed that it would be accepting of this method in the past, and has endorsed the idea of objectives-based accounting facilitating the movement towards IFRS integration (2003, n. pag.). This is a less recent source, but it evidences the thinking of the SEC back when convergence was under serious consideration. The SEC reaffirmed their support of objectives-based standards in 2008 as well (2008, p. 45). The SEC is indicating here that a move toward principles (objectives)-based accounting would be helpful in the long run towards reducing differences worldwide. In the end, as long as accounting and financial reporting is able to communicate substantially the same amount of information, with little chaos, and as long as accounting for tax purposes is not substantially impacted negatively (from the government's viewpoint) the SEC will likely allow the initiative in the interest of worldwide citizenship, if not be supportive of the whole idea. Ultimately, a principles-based approach is more desirable than a rules-based approach, simply due to the inherent philosophy behind accounting: showing the essence of a transaction and what is actually happening faithfully. The SEC has shown previously that they believe that objectives-based accounting is preferable and more representationally faithful than traditional GAAP (2003, n. pag.). Because the principles of accounting (theoretically) are the standard by which all accounting frameworks are based, reducing the stringent rules of domestic GAAP in favor of greater simplicity should bring GAAP inherently closer to IFRS-based financial statements even if the IASB and the FASB did not work together closely. This is a take on harmonization as previously discussed; however this strategy uses ideas and vocabulary previously used favorably by the SEC. Relatively little has been written about objectives-based accounting after the early part of the millennium, but it is still an interesting and innovative take on the globalization issue.

## Impact on the Auditing Profession

There are two halves to every coin. In the event of IFRS adoption in the United States, Wright and Hobbs believe that more critical thinking and sound decision making skills would be expected from managerial accountants charged with reporting their financial position, and that auditors will need to take this into account (2010, p. 22).

Interestingly, Dellaportas and Sivanantham (2008) have stated that the study of worldwide convergence has not focused on the auditing rules (p. 665). The effect of any major rule change in accounting within the financial reporting sector will be first felt in the accounting department of a company as the new rule is implemented, and will then show up in the actual financial statements as the changes are implemented. Ultimately the struggle will be in the financial accounting departments, as the company works to report according to a more principles-based framework, while trying to best figure out how to enjoy the newfound freedom that the company will enjoy. The Public Company Accounting Oversight Board (PCAOB) writes that the auditors are solely responsible for ensuring that the statements a company issues are “reasonably” free of “material misstatement” (1972, para. 2). This the PCAOB contrasts with the role of company management. They show that the managers within a company must be the one who make the decisions as to what is reported (PCAOB, para 3, 2002). Albu, Albu, Fekete Pali-Pista and Cuzdiorean Vladu (2011) say that auditors, when seen as competent, are used for new standard implementation (p. 48). This comment was given in the context of total IFRS adoption and implementation, but it rings true with any new accounting standards. Albu et al. note that the creation of financial reporting rules has historically involved large accounting firms (2011, p. 46). Interestingly, Fraser (2010) argues that only one framework of auditing regulations is preferable to multiple in the minds of the big auditing “networks” (p. 306). In the introduction to Fraser’s article, he calls for the International Auditing and Assurance Standards Board (IAASB) to put out a worldwide set of auditing standards (2010, p. 299). This sounds ideal, but as long as there are substantial differences in accounting standards, there will always be differences in how they are audited. Auditing work is even more subjective than financial reporting work, as auditors are simply there to check up on work already done, and their methods will, in practice, be more discretionary. It must be noted that relaxing some of the strict rules of the FASB proposed by this thesis is not the same as the convergence discussed in in Fraser’s writing, but is similar enough that some of the same complexities will have to be considered and worked through within the audit profession. Therefore, some of the basic tenants of his work will hold true. As Albu et al. show, auditing firms often help firms in publishing financial information according to correct methods during early stages of IFRS implementation (2011, p. 49). If auditors were not allowed to do this for sake of independence, especially within the United States, companies might run into problems. This situation would mean that companies would be left to themselves to implement any new IFRS-based or inspired rulings, or even principles-based accounting standards issued domestically by the FASB, and may not be able to receive the assistance they need to accomplish the necessary changes effectively. Nagy and Cenker (2007) indicate that after the implementation of the Sarbanes-Oxley Act (SOA), auditing firms had a difficult time with keeping motivated, happy employees within the organization due to all the challenges the introduction of the act produced (p. 220). Unlike the sudden introduction of SOA, the changes proposed in this work are more gradual so as to mitigate this issue that could arise within the auditing community. Is never a good idea to allow a company to flounder about, as any mistakes will likely be caught by an experienced audit firm anyway. The FASB has found that there is resistance to making judgement calls in areas where accounting professionals must make decisions that require a great deal of individual estimation (2004, p. 6-7). As professional estimations are part of the daily work of accounting firms, this presents a huge barrier to increased IFRS influence within the United States.

Another question that needs to be answered is how audit firms will respond to increased interaction between the FASB and the IASB and the resulting compromises and updated standards. Theoretically, as long as standards are reasonably fair and closely approximate reasonable accounting, auditing firms should not have a huge issue with the new standards that will inevitably flow out from such an arrangement, based solely on principle. However, as previously discussed, accounting firms have previously played a part in creating standards (Albu et al. 2011, p. 46). If they do not have this responsibility, possible conflict may arise, since auditors are not responsible for developing accounting standards; but merely enforcing them. There will still be plenty of work to do for the audit firms. The SEC had proposed that in the event of a more objectives-oriented approach, a need for more skilled accountants in this field will be created (2003, n. pag.). They have also supported the idea that larger accounting firms with worldwide operations and who are familiar with IFRS (and by extension, more principles-based accounting) will likely be more equipped to deal with this issue (SEC, 2008, p. 40-41). Wright and Hobbs write that because of the extra leeway given by principles-based accounting, more effort will have to be expended in auditing the finances of companies under principles-based accounting (2011, p. 22). On the other hand, Reilly says that the audit community may not be responsible enough to handle the supervisory-type role that global standards would require of them (2011, p. 874). However, as principles-based accounting has demonstrated acceptance in much of the world, this strategy can be accomplished. The trick is to implement changes at a sustainable pace so that nothing is done in haste, and so that companies in the United States will not be forced to rely solely on internationally-experienced auditing firms. This may allow smaller auditing firms to “catch up” and maintain competitive advantage as viable auditing businesses within the United States.

According to Ryan (2012), roughly 85% of auditing fees are collected by “big global firms” (p.33). Ryan quotes Suresh Kana, CEO of PriceWaterhouseCoopers and indicates that the reason that the Big Four take in such a large percentage of revenue is due to the international nature of their largest clients (2012, p. 36). This does not necessarily mean that the vast majority of companies are audited by these giant firms, but that the bigger, more expensive audits are completed by the big firms. As George Staubus (2005) says, situations in which errors get by auditors cause serious problems. However, in the United States, this issue is minimal compared to the rest of the world (p. 8). In order for investors in the United States to continue to enjoy the current high standards they are accustomed to, the freedom that principles/objectives-based, partially converged, mostly harmonized accounting would allow would have to be heavily monitored by the SEC and the FASB. However, investors will have to stay abreast of accounting changes, as according to the AICPA, auditors are there to ensure reliable information is dispersed to investors (AICPA 1972. p.1). Auditors are not there to ensure that investors generate a return on their investment.

## Conclusion

The accounting profession is complementary to the marketplace as a whole, and is not a stand-alone profession. Therefore the accounting must be flexible, and move in tandem with the ebbs and flows of the business world, as the practice is derived from businesses, and without these businesses, would not have anything to account for. This thesis holds that the future is always based on the present and the past. In 2010, Bradshaw et al. argued for the continued efforts towards convergence (p. 125). More recently, Filomia-Aktas points out that the United States does not have official plans to adopt IFRS (2013, p. 5). The IASB has only limited power and is incapable of muscling the United States into any sort of convergence effort if the respective authorities in the United States do not desire to be part of the vision that the IASB has espoused in the past. Erchinger points out that US GAAP will remain the standard even if IFRS standards are mixed in (2012 p. 253). As such, this thesis does not argue against current trends in which the United States is cooperative and continues to utilize the current method of collaboration in framework development between both the IASB and the FASB through joint projects. McEnroe and Sullivan pointed out that the older styles of convergence are out of date (2012 p. 18). On a cautionary note, accountants and businesspersons need to be aware that the joint projects are not reducing existing differences, but simply ceasing to create new ones.

This thesis posits that a decided and continued shift away from a rules-based system within the United States towards an accounting framework that continues to more fully utilize the objectives-based accounting proposed by the SEC in an effort to continually simplify and add principle to the GAAP framework will provide greater domestic comparability with the frameworks utilized in other majorly developed areas of the world. This should be undergone in a civilized manner, with as little disruption as possible. This transition will have to be implemented with great care and will be well served if the auditing community demonstrates willingness and support. This approach provides long-term freedom and ability to more closely match international standards while remaining relatively free from the authority of the IASB. This will allow for reduced differences, and will allow the United States to embrace the international community and promote domestic and international markets to the benefit of the world as a whole, without ever having or needing total convergence.

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