The SEC Roadmap for the Application of IFRS to U.S. Issuers: a New Way to Teach Advanced Accounting

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ABSTRACT

The purpose of this argumentative paper is to offer a justified conclusion regarding the optimum level of participation of the U.S. General Accepted Accounting Principles (GAAP) in advanced accounting teaching, once the Securities and Exchange Commission’s (SEC) decision to propose a “Roadmap” for the use of International Financial Reporting Standards (IFRS) by U.S. issuers by 2014 is known.

While the journey of convergence between the U.S. Financial Accounting Standards (U.S. GAAP's) and the International Financial Reporting Standards (IFRS's) has been going on for at least 10 years, current educational materials lack any comparative/critical analysis perspective, which is so important to the student of accounting today. Our proposal is to fill in the gap left by educational materials centered on either U.S. GAAP or IFRS's to the exclusion of a comprehensive comparison/critical analysis of the relationship between the two.

A direct comparative/critical analysis of the two types of standards is necessary because, while convergence is happening, the two styles of standards (U.S. GAAP's are largely rule-based, while IFRS's are more principles-based) require the accountant of today to understand the dynamics between the two systems to most effectively perform their growing roles as international accountants.

The opinion of the authors is that accounting programs will provide the international perspective that will help U.S. GAAP-educated accountants and IFRS-educated accountants to experience a convergence of their own. Only by developing an international perspective on the convergence of the accounting standards will the student of accounting today prove to be the valuable accountant of tomorrow.
1. INTRODUCTION

On August 27, 2008, the Securities and Exchange Commission (SEC) published for public comment a proposed “Roadmap” to lead to the use of International Financial Reporting Standards (IFRS) by U.S. issuers, beginning as early as 2014, with a specific rule change that would permit the use of IFRS by certain U.S. issuers. This extraordinary event was the consequence of a long and winding global movement in search of a common accounting language. The main events in this process included the following:

• 1993: «The International Organization of Securities Commissions» (IOSCO) and «International Accounting Standard Committee» (IASC) agreed on a minimum body of “core accounting standards” for the financial statements of enterprises involved in cross-border offerings and listings.

• 1995: IOSCO recommended the endorsement of International Accounting Standards for cross-border capital raising and listing purposes in all global markets. This recommendation was accepted by all security exchange members except the U.S. one, the Security and Exchange Commission. The European Commission took the decision to align with the international trend towards harmonization.


• May 2000: the IOSCO President's Committee approved a resolution in which it was recommended that IOSCO members permit incoming multinational issuers to use the IASC 2000 Standards to prepare their financial statements for cross-border offerings

¹ The IASC body was renamed the International Accounting Standards Board (IASB) in July 2000.
and listings, as supplemented, where necessary, to address outstanding substantive
issues at a national or regional level.

  enforcing the application of international accounting standards to all European Union
  (EU) listed companies, starting no later than 2005.

- September 2002: both the Financial Accounting Standards Board (FASB) and the
  International Accounting Standards Board (IASB) announced their commitment to
  the development of high-quality, compatible accounting standards that would be
  used for both domestic and cross-border financial reporting (Norwalk Agreement).

- November 2007: the SEC approved rule amendments under which financial
  statements from foreign private issuers in the U.S. would be accepted without
  conforming to U.S. Generally Accepted Accounting Principles if, and only if, they
  were prepared using International Financial Reporting Standards (IFRS) issued by
  the IASB. But U.S. companies operating multinationally and using the IFRS abroad
  basis (i.e. U.S. companies listed in foreign markets where IFRS are required or with
  affiliates settled or listed in countries with the same requirement) would have to
  convert to U.S. GAAP. That involves time and money.

Currently, U.S. issuers must use U.S. GAAP, though foreign registrants (of which there
are currently around 1,100 from 52 jurisdictions) may elect to use IFRS. The Securities and
Exchange Commission (SEC) will make a decision as to whether the adoption² of IFRS for
all U.S. registrants is in the public interest and of benefit to investors. The proposed SEC
Roadmap suggests mandatory adoption by U.S. registrants and could be phased in from 2014
to 2016, depending on the company’s size. The SEC must decide either to allow or require
IFRS for U.S. issuers. The proposed Roadmap sets seven milestones which, if achieved,

² Under this approach (known as endorsement approach), jurisdictions incorporate individual IFRSs into their
local body of standards (SEC, 2011).
could lead to an SEC decision for mandatory use. They relate to improvements in accounting standards; the accountability and funding of the IFRS Foundation; improvement in the ability to use interactive data for IFRS reporting, education and training relating to IFRS; limited early use of IFRS where this would enhance comparability for U.S. investors; the anticipated timing of future rulemaking by the Commission; and implementation of the mandatory use of IFRS by U.S. issuers.

The purpose of our paper is to analyze the role of the U.S. Accounting Standards in higher education after the decision taken by the SEC, under which financial statements from foreign private issuers in the U.S. prepared according to IFRS would be accepted without conforming to U.S. Generally Accepted Accounting Principles.

In order to arrive at a response to this issue (see our research design in section 3) we have analyzed the most important literature (see section 2), reviewed the current IFRS domain (see section 4), and performed a study on the economic power of the U.S. Corporations included in the Global Fortune 500 list at the end of the year 2007 (see sections 5 and 6).

Finally, we present a proposal for a new way to teach Advanced Accounting (see section 7) with our final conclusions and recommendations (section 8).

2. LITERATURE REVIEW

IFRS in Introductory versus Intermediate versus Advanced Accounting

The results of prior surveys of accounting faculty and practitioners highlight the importance of offering a variety of international accounting topics in order to internationalize the accounting curriculum (Burns 1979; Mintz 1980; Agami 1983; Gray and Roberts 1984;

One approach is to offer elective international accounting courses at the senior undergraduate or graduate level. Another is to incorporate international topics into existing accounting courses (Tondkar et al. 1998; Adhikari et al. 1999, Zhu et al., 2011).

The AAKPMG survey indicates that few universities include international accounting topics in their introductory financial accounting syllabi (Munter and Reckers 2009), regardless of the recommendation from the Education Committee of International Accounting Section of the AAA in 1978 that instructors include an Introduction to International Accounting in one of the first two undergraduate Principles of Accounting courses (Burns 1979; Sherman 1987).

There are several factors that introductory, intermediate and advanced accounting instructors might consider when deciding whether to cover IFRS extensively in their courses, many of which are recent developments that may require changes to the university accounting curricula (Zhu et al., 2011). These changes must respond effectively and efficiently to enterprise needs, thus SEC objectives for IFRS education needs must be considered preeminent, as must the American Institute of Certified Public Accountants (AICPA), in its role as Certified Public Accountant Standard Issuer.

The Securities and Exchange Commission (SEC) believes that a single set of high-quality globally accepted accounting standards will benefit U.S. investors and that further work is necessary in order to assess investor understanding and education regarding IFRS. The SEC considers that existing mechanisms to educate investors traditionally (education sessions, roundtables, and Web casts) are considered in the context of education after a standard has been developed. Also important, however, is investor education during the standard-setting process (SEC 2010).
Moreover, the AICPA Board of Examiners announced in May 2009 that exam content updates had been implemented and, for the first time, IFRS would be eligible for testing in the uniform CPA Exam, starting in 2011.

This fact indicates that the U.S. accounting professionals are beginning to be aware of the need to understand the rules in an IFRS world. But U.S. colleges and universities are still not equipped to teach IFRS at the level necessary for near-term adoption of the standards. Changes in the manner in which faculty teach accounting must occur before graduates will be equipped to prepare and interpret financial statements using IFRS. (AAA FASC 2008).

Barth (2008, p.1176) considers that the implications for U.S. academics with regard to global financial reporting are profound. “The U.S. is deeply involved and will be affected by global financial reporting. U.S. academics need to educate first themselves and then their students to be able to participate in a global world (….) The question is how, not whether, it will happen, and how, not whether, U.S. academics will participate”.

**IFRS’s quality versus U.S. GAAP’s quality**

It is unclear whether IFRS provides equivalent financial reporting quality to that given by U.S. GAAP. As Hail et al. state (2010a, p.370), “Given the quality of U.S.GAAP combined with strict enforcement and strong (market based) reporting incentives already in place, IFRS adoption would be unlikely to improve reporting quality in the United States”. Even more, in the words of the AAA Financial Accounting Standards Committee (2008, p.241), “there is adequate evidence that both IFRS and U.S. GAAP provide useful information to investors and other users of financial statements. And there is no conclusive research evidence that financial reports prepared using U.S. GAAP are better than reports prepared using IFRS”.
Daske et al. (2008) examined the economic consequences of mandatory IFRS reporting around the world, and found that on average, market liquidity and equity valuations increase around the time of introduction of IFRS, while cost of capital decreases. They found that the capital - market benefits occur only in countries where firms have incentives to be transparent and where legal enforcement is strong. Comparing voluntary and mandatory adopters, they also found that the capital market effects are more pronounced in firms that voluntarily change to IFRS.

**Monopoly Status from IFRS**

There are many social agents who consider that the best option from a global point of view should be the full adoption of IFRS worldwide, and that the U.S. is being forced to adopt the IFRS because of International and Market pressures. However, this decision does not recognize the U.S. accounting legacy and would lead to an accounting monopoly at a world level, and therefore would produce all the negative effects that any monopoly brings from an economic point of view. Moving to a single set of accounting standards can create cost savings and comparability benefits, but, in the words of Hail et al. (2010b, p.569), “one particular concern about the adoption of IFRS in the United States is that such a move would largely eliminate the existing competition between IFRS and U.S. GAAP, essentially granting monopoly status to IFRS”.

Consequently, there are voices in favour of stimulating the competition between U.S. GAAP and IFRS, given there is no clear difference in quality between them. The American Accounting Association Financial Accounting Standards Committee (2008, p.241) “recommends that the Commission extend the choice of IFRS to U.S. companies, and require all companies to indicate clearly whether they are filing under U.S. GAAP or IFRS”.

3. **RESEARCH DESIGN**

At the present time, given the degree of implementation of IFRS (see section 4) the necessity of introducing them into university accounting programmes seems clear (see section 2). The empirical evidence analysed so far shows no higher quality in IFRS as compared to US GAAP. Our research proposes the role the US norms (US GAAP) should play in these university programmes and at what level the study of US GAAP together with IFRS should be introduced, in the case that the national standards do not coincide with one or either of them.

In order to justify our proposal we have analyzed:

1. **Current IFRS domain** (see section 4).

2. The weight of US firms at world level, working with data corresponding to year 2008 from the Global 500 Fortune list, due to the fact that the figures correspond to the end of the 2007 fiscal year and therefore they are not influenced by the SEC decision, under which financial statements from foreign private issuers in the U.S. would be accepted without conforming to U.S. Generally Accepted Accounting Principles, dated November 2007 (see section 5).

3. The degree of independence of the SEC’s decision on the application of IFRS to U.S. issuers (see section 6).

As a result, we propose a new way of introducing the U.S. and International Accounting Standards in advanced accounting courses (see sections 7 and 8).
4. CURRENT IFRS DOMAIN

Today over 100 countries either require or allow the use of IFRS for the preparation of financial statements by listed companies, and other countries are moving to do the same, as seen in the following map:

**FIGURE 1. IFRS APPLICATION BY COUNTRY**

![Map of IFRS Application by Country](image)

Source: Deloitte (www.iasplus.com)

This recent movement towards IFRS outside the United States has resulted in an increase, from relatively few in 2005 to approximately 110 in 2006, of filings with the SEC by foreign private issuers that state in the footnotes to their financial statements that their financial statements comply with IFRS as published by the IASB. The SEC expects to see this number continue to increase in the future, particularly pursuant to Canada’s announced move to IFRS: currently there are estimated to be approximately 500 foreign private issuers from Canada (IASB 2008). Australia has also decided to adopt IFRS, as part of a strategy to ensure the consistency and comparability of Australian financial reporting with financial reporting across global financial markets.
It seems evident that the world’s financial statement issuers are at a point of no return. In a global world, global markets need to be fed with financial accounting standards written in a single and universal language; anything else is inefficient. Former British Prime Minister Gordon Brown (2009) has called on world leaders to set about reforming international financial institutions to prevent a repeat of the circumstances that led to the current financial crisis.

As a consequence, the U.S. accounting community’s ability to evaluate global financial accounting statements is affected, particularly as their level of investment in non-U.S. companies has increased over time.

Promoting a single set of globally accepted accounting standards will clearly be a benefit to accounting professionals. They will not only be able to compare information more easily, but will also be in a better position to make informed decisions. This benefit is dependent upon the use of a single set of high-quality standards globally and financial reporting that is consistently applied across companies, industries and countries (SEC 2008). But the question here would be the following: Do IFRS provide the best single set of high quality accounting standards? The SEC believes that IFRS has the best potential to provide a common platform on which companies can report and investors can compare financial information. However, there are also prevalent divergences from this view. The IASB has adopted a principles-based approach in order to develop a set of accounting standards that constitute the “highest common denominator” of financial reporting. The SEC has also recommended adoption of this approach. But IFRS are not as “developed” as current U.S. GAAP in certain areas. IFRS also are not as prescriptive as U.S. GAAP and permit a greater number of options than current U.S. GAAP. This relatively smaller amount of guidance and greater range of options may increase issuers’ ability to account for transactions or events in accordance with their
underlying economics, but may also result in the use of greater judgment in applying the standards (SEC 2008).

So, who should be the leader in this harmonization process? The evidence points to IFRS, because of:

- The number of countries that require or permit IFRS. We can underline this idea by looking at scenarios from 2008 and 2011 (see table 1 and 2).
- The number of countries that are seeking convergence, among them the USA, where two thirds of national investors own securities issued by foreign companies, which report their financial information using IFRS (SEC 2007).
- The financial crisis, which has brought to light the necessity of global accounting standards to contribute to financial information transparency, which did not seem to be served better by the U.S.’s more prescriptive GAAP. “The integrated nature of capital markets, combined with the mobility of capital itself, highlights the need for a commonly accepted set of accounting standards” (Smith 2009).
- Many markets having chosen the IFRS option. Since Information is an economic good, markets are saying:’ We want IFRS!’ Is the U.S. going to stop this trend?
- The political support given by the European Union and G-20 “The key global accounting standards bodies should work intensively towards the objective of creating a single set of high-quality global standards” (Washington Declaration 2008).

On the other hand, countries where IFRS are unsupported are not insignificant economically, as shown below. At present, although the number of countries included in Fortune Global 500 that do not permit the use of IFRS represents only 36.11% of all the countries included (36), the number of enterprises located in those countries constitute 60.40% of the total, and their revenues come to 56.83% of the total revenues:
<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Companies IFRS’s not permitted</th>
<th>Revenues ($ millions)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>5</td>
<td>213.673</td>
<td>IFRS required for all from 2010.</td>
</tr>
<tr>
<td>Canada</td>
<td>14</td>
<td>343.205</td>
<td>Canada has announced a plan to adopt IFRS in full as Canadian Financial Reporting Standards effective 2011. Companies are permitted to begin using IFRS as early as 2008 on approval of their provincial securities regulator.</td>
</tr>
<tr>
<td>China</td>
<td>29</td>
<td>1,144.331</td>
<td>Chinese companies listed on the Hong Kong Stock Exchange are permitted to use IFRS or Hong Kong FRS. Half use IFRS.</td>
</tr>
<tr>
<td>India</td>
<td>7</td>
<td>221.074</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>64</td>
<td>2,596.697</td>
<td>In August 2007, the ASBJ and the IASB agreed on a process for converging Japanese GAAP and IFRS. 'Major differences' between Japanese GAAP and IFRS will be eliminated by 30 June 2011.</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1</td>
<td>66.218</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>5</td>
<td>192.772</td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>1</td>
<td>33.678</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>1</td>
<td>27.558</td>
<td>Singapore has adopted most IFRS essentially word for word as Singapore equivalents of IFRS. However, they have made changes to the recognition and measurement principles in several IFRS when adopting them as Singapore standards, and they have not adopted several other IFRS.</td>
</tr>
<tr>
<td>South Korea</td>
<td>15</td>
<td>621.092</td>
<td>Korea equivalents of IFRS permitted for listed companies other than banks from 2009. Required from 2011.</td>
</tr>
<tr>
<td>Taiwan</td>
<td>6</td>
<td>171.449</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>1</td>
<td>51.193</td>
<td></td>
</tr>
<tr>
<td>U.S.</td>
<td>153</td>
<td>7,738.909</td>
<td></td>
</tr>
<tr>
<td>Global 500</td>
<td>500</td>
<td>23,618.476</td>
<td></td>
</tr>
<tr>
<td>revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% not permitted over total Fortune 500</td>
<td>60.40</td>
<td>56.83</td>
<td></td>
</tr>
</tbody>
</table>

Source: Constructed from July 21, 2008 issue of Fortune Global 500 and 2008 IAS Plus guide on IFRS

Likewise, in the New York Stock Exchange only 28.63% of the total listed companies present their financial statements using IFRS (67.45% are USA issues).

These figures seem to point once again to the idea that the IFRS trend could be more a matter of intentions than a question of figures and may be addressed by governments, market authorities and strong and powerful companies.
Nevertheless, this scenario will change dramatically in two years, as seen in table 2.

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Global 500 Companies</th>
<th>Revenues (Smillions)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>29</td>
<td>1,144,331</td>
<td>China has made a commitment to converge to IFRS. Standard convergence is an ongoing process.</td>
</tr>
<tr>
<td>India</td>
<td>7</td>
<td>221,074</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
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<td>51,193</td>
<td></td>
</tr>
<tr>
<td></td>
<td>51</td>
<td>1,908,27</td>
<td></td>
</tr>
<tr>
<td>Global 500 revenues</td>
<td></td>
<td>500</td>
<td>23,618,48</td>
</tr>
</tbody>
</table>

% not permitted over total Fortune 500

<table>
<thead>
<tr>
<th>Country</th>
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<th>Revenues (Smillions)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>10.2</td>
<td>8.08</td>
<td></td>
</tr>
</tbody>
</table>

5. GAAP REPORTING ANALYSIS BY COUNTRY

In order to provide insight into this issue, our research focused on the firms included in the 2008 Fortune Global 500 list. Companies chosen were domiciled in those countries which did not permit the use of IFRS, with the purpose of analyzing their level of multinationality, and whether a possible change to IFRS was advisable in terms of avoiding problems caused by accounting diversity. Corporations with a large number of subsidiaries reporting according to IFRS may incur lower costs in preparing their consolidated financial statements. Using the same accounting standards for parent companies and subsidiaries will lead to more efficiency because of lower financing, reporting and auditing costs. Comparability of financial statements would also improve.
The level of multinationality was analysed in terms of the percentage of sales generated abroad, and the potential interest regarding a change from the GAAP accounting system to the IFRS one was analysed in terms of the percentage of sales in the European Union.

We worked with data corresponding to year 2008 from the Global 500 Fortune list, due to the fact that the figures correspond to the end of the 2007 fiscal year and therefore they are not influenced by the SEC decision, under which financial statements from foreign private issuers in the U.S. would be accepted without conforming to U.S. Generally Accepted Accounting Principles, dated November 2007.

The most important country that does not permit the use of IFRS is the United States, with the highest number of corporations and revenues, 153 out of 302, followed by Japan, with 64 corporations, and China, with 29.

The United States, with 153 companies, represents 32.63% of the revenues of the Fortune 500 list. Most of these are multinational companies. On average, 30.8% of revenues were generated abroad and only 10.4% in countries that apply IFRS.

**GRAPHIC 1. U.S. entreprise revenues**

![Pie chart showing U.S. enterprise revenues](source: Own made from the July 21, 2008 issue of Fortune Global 500)
Japan, with 64 companies, represents 10.99% of the revenues in the Fortune 500 list. On average, 35% of revenues are generated abroad and 6.6% of revenues in countries that apply IFRS.

GRAPHIC 2. Japan enterprise revenues

Source: Own made from the July 21, 2008 issue of Fortune Global 500

China, South Korea, Taiwan, Thailand and India, with 58 companies, represent 9.35% of the revenues on the Fortune 500 list. On average, 28.3% of revenues are generated abroad and 3.1% of revenues in countries that apply IFRS.

GRAPHIC 3. Asia enterprise revenues: China, South Korea, Taiwan, Thailand and India

Source: Own made from the July 21, 2008 issue of Fortune Global 500
Canada, with 14 companies, represents 1.45% of the revenues of the Fortune 500 list. On average, 55.6% of revenues are generated abroad and 11.4% of revenues in countries that apply IFRS.

**GRAPHIC 4.** Canada enterprise revenues

The level of international revenues for all the countries and companies analyzed is important, and confirms that we are in the era of globalization. However, sales in countries applying IFRS were not that high. We believe that in a short period of time, due to the process of accounting harmonization and the pre-eminence of IFRS, the percentage of sales generated in countries applying this IFRS will continue to increase.

6. **THE SEC ROADMAP FOR THE APPLICATION OF IFRS TO U.S. ISSUERS: A COMPULSORY OR VOLUNTARY DECISION?**

In the last three decades, the world’s economy has been transformed through market globalization and the latest change has been the main force of resource assignment (Rato 2009). In this context, the world convergence\(^3\), or condorsement\(^4\), towards a sole accounting language seems an unquestionable fact.

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\(^3\) Under the Convergence Approach, jurisdictions maintain their local standards but make efforts to converge those bodies of standards with IFRS over time (SEC, 2011).
We believe the use of IFRS has passed the point of no return and should lead this process, due to:

- The number of countries that require or permit IFRS,
- The number of countries that are seeking convergence,
- The financial crisis, which has brought to light the necessity of global accounting standards in order to achieve financial information transparency. On July 13th 2009, G-8 adopted the commitment to develop a standard body, «Lecce Framework», with the objective of strengthening the propriety, integrity and transparency in international business and financial relations; accounting standards have been included in the specific areas to be covered by this standard body. Recently, the leaders of the Group of Twenty Nations (G-20) demanded that international accounting bodies redouble their efforts to achieve a single set of high quality global accounting standards through their independent standard-setting processes,
- Many markets having chosen the IFRS option,
- The political support given by the European Union and G-20,
- The long and costly process of convergence between U.S. GAAP and IFRS.

We investigated the firms included in 2008 Fortune Global 500 list from countries that today do not permit the use of IFRS. At that time, the most important countries on this list were the United States, Japan, Taiwan, Thailand, China, India and Canada. The high percentage of revenues generated overseas must be highlighted, but still, the amount generated in countries applying IFRS has not been very high, as seen in graphic 5.

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4 This approach to incorporation is in essence an Endorsement Approach (Under this approach, jurisdictions incorporate individual IFRSs into their local body of standards) that would share characteristics of the adoption approach with other jurisdictions that have incorporated or are incorporating IFRS into their financial reporting systems (SEC, 2011).
This panorama will change in the near future, as more and more countries are applying their current decisions to adopt IFRS, but in 2008, this factor per se did not have enough power to enforce the 2008 SEC decision. Therefore, although we consider that this process is at a point of no return, the 2008 SEC proposed Roadmap for allowing U.S. issuers to prepare financial statements in accordance with IFRS has been a supranational act of generosity, given the real position of pre-eminence of companies in both the U.S. and their allied countries.

The mission of the SEC is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. In the SEC’s own words, the convergence process between IFRS and U.S. GAAP has been too long in coming and it was time to propose a change. SEC has expressed its support of IFRS, as they have the best potential to provide a common platform from which companies can report and investors can compare financial information. SEC will make the decision in 2011 as to whether adoption of IFRS is in the public interest and would benefit investors.
To sum up, in our opinion the SEC decision to present a roadmap to permit U.S. issuers to adopt IFRS was a voluntary choice, taken in view of a scenario where almost all factors, now or in its projection, point to the logic of that resolution.

7. OUR PROPOSAL: A NEW WAY TO TEACH ADVANCED ACCOUNTING

The conclusions obtained from the above analysis point to the necessity of a single accounting language that will provide high-quality, globally comparable financial information.

In order to reach this objective it is essential to strengthen the present close work relationship between IASB and FASB\(^5\) in the development of IFRS, due to the following facts:

- The important development of U.S. GAAP in comparison with IFRS.
- The historical importance of U.S. GAAP in the development of accounting science and the real position of pre-eminence of companies in both the U.S. and their allied countries.
- As both Standard Boards recognize (2009): “Improving and promoting convergence of our standards will require changes to both IFRSs and U.S. GAAP, (...) Serving investors means seeking convergence by jointly developing high-quality new standards to replace our existing standards, in need of improvement”.

IASB and FASB have taken the decision to work towards convergence, simultaneously affecting both Standards. The way this convergence process has been established should be

\(^{5}\) IASB and FASB have been working together since 2002 to achieve convergence of IFRSs and US GAAP; in their own words: “A common set of high quality standards remains a priority of both the IASB and FASB”

taken into consideration at the time of designing the teaching methods in accounting nowadays.

The majority in the accounting profession support the argument that the most important difference between U.S. GAAP and IFRS approach is that U.S. GAAP is based on rules and IFRS on principles.

Our central thesis is that this fact is a benefit for the convergence; IFRS contributes with the necessary philosophy to build a standard basis approach and U.S. GAAP contributes with specific rules and experience to facilitate the implementation of the standards. It is important to remember that U.S. GAAP has enjoyed seven decades as the gold standard, but IFRS only one.

As result of our analysis, in our opinion the SEC decision to present a roadmap to permit U.S. issuers to adopt International Financial Reporting Standards represents one of the most important steps towards accounting standards convergence. We consider that IFRS and USGAAP will be determinant in the development of high-quality standards over time, considering:

- The historical importance of U.S. General Accounting Principles in the development of accounting science,
- The real position of pre-eminence of companies in both the U.S. and their allied countries,
- The existence of empirical academic research concluding that there is no evidence of the higher quality of IFRS when compared to US GAAP, and
- The accelerated and irreversible global process towards International Financial Reporting Standards.
In order to give an appropriate educational response to the whole process of global reporting standards needs, we judge it necessary to include a comparative vision of IFRS and U.S. GAAP in the teaching of advanced accounting.

Universities should change their accounting programs in order to educate future entrepreneurs, investors, managers and stakeholders, who in general will face important challenges. It is very important to support strong cooperation in the development of international standards between the International Accounting Standards Board and the Federal Accounting Standard Board.

In our opinion the joint study of IFRS and UF GAAP, when the national standards do not coincide with either of them, should be introduced as an obligatory subject in postgraduate course related to Advanced Accounting, and should be further developed through executive courses. Nevertheless, the possibility should be considered of beginning to study it in undergraduate courses by offering it in concentration courses.

8. CONCLUSION

In the last three decades, the world’s economy has been transformed through market globalization, and the latest change has been the main force behind resource assignment. In this context, the world convergence towards a sole accounting language seems an unquestionable fact.

There is widespread current debate about the process towards the creation of a single set of global accounting standards, whether it be through the convergence, the condorsement or the adoption of IFRS world-wide. In our opinion, no matter which option is chosen FASB and IASB (2009) will continue working together.

From our perspective, the time needed to make a decision on when to use IFRS could be reduced significantly, as well as the level of uncertainty, if U.S. GAAP were taken as a
reference, due to the fact that U.S. GAAP is a more developed, regulated and detailed accounting system.

Based on the previous arguments, we consider it necessary that a comparison between IFRS and U.S. GAAP be included in the teaching of Advanced Accounting.

Additionally, this proposal could be of great interest for international inter-universities cooperation all over the world, and we would like to invite those universities interested in this topic to collaborate in the development of high quality material in this field, translated into different languages according to the different universities’ needs, which would facilitate the harmonization of this field of knowledge and inter-university mobility between professors and students interested in it.

The Universidad Rey Juan Carlos and St. Louis University have begun to work on a common project to develop high quality material based on this idea, and both institutions invite Professors coming from other Universities to participate in this project.

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