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The Implication of 18 Critical Aspects Evaluating the Relationship between EMH and IFRS

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Abstract: *The purpose of the literature review is to discuss in-depth 18 critical aspects the SEC should evaluate prior to the adoption of IFRS in the U.S. market. The efficient market hypothesis (EMH) was examined to help the researcher evaluate the financial crisis from 2007 to 2009 as related directly to the comparability and transparency of IFRS. Empirical research studies suggest IFRS can be classified into three groups: Anglo-Saxon, Continental European, and emerging economies. Therefore, the relationship between the efficient market hypothesis (EMH) and International Financial Reporting Standards (IFRS) presents an interesting research debate among accountants.*

1. Review of the Literature

The literature review includes 18 critical areas that explain the resistance to the change from GAAP to IFRS. The efficient market hypothesis (EMH) was examined to help the researcher evaluate the financial crisis from 2007 to 2009 as related directly to the comparability and transparency of IFRS. Empirical research studies suggest IFRS can be classified into three groups: Anglo-Saxon, Continental European, and emerging economies.

Efficient Market Hypothesis (EMH) and IFRS

In 1965, Paul Samuelson formulated a rigorous theory known as the efficient market hypothesis (EMH). According to Bodi, Kane, and Marcus (2014), EMH suggests:

> The prices of securities fully reflect available information. Investors buying securities in an efficient market should expect to obtain an equilibrium rate of return. Weak form efficient market hypothesis asserts that stock prices already reflect all information contained in the history of past prices. The semi strong-form hypothesis asserts that stock prices already reflect all publicly available information. The strong form hypothesis asserts that stock prices reflect all relevant information including insider information. (p. G-4)

Bodi et al. further attested that EMH creates arbitrage opportunities and competitors are driven by the dollar value, and defined arbitrage as "a zero-risk, zero-net investments strategy that still generates profits" (p. G-1). Accountants and financial practitioners understand that psychology heavily affects the decision-making process in the market. The EMH appears to be consistent in the U.S. market, but inconsistent in the emerging economies market. Madura (2015) stated that some emerging markets are new or small and as a result are unlikely to be as efficient the New York Stock Exchange (NYSE).

The IASB, prior to the 2007 and 2009 financial crises, found inconsistencies in the accounting standards. The credit crisis from 2008 to 2009 in the United States allowed the IASB to adjust International Accounting Standards (IAS) and IFRS applicable to small and medium sized businesses (SMEs). The capital requirement and contribution to GAAP continued to escalate. For example, pro-cyclical accounting is attributed to the fair value measurement and to the treatment of impairment assets. The pro-cyclical accounting effect helped reduce the volatility in the financial statements and triggered the IASB to reclassify the IAS under IFRS (Ojo, 2010).

The credit crisis from 2008 to 2009 revived the harmonization process between the FASB and the IASB, because over the past 10 years the globalization of accounting standards and corporate governance had been important elements in the accounting industry. The United States during the credit crisis found systemic risk. Madura (2015) defined *systemic risk* "as the spread of financial problems among financial institutions and across financial markets that could cause a collapse in the financial system" (p. 19). The United States has resisted change from GAAP to IFRS because the SEC does not want to encounter another systemic risk in the Anglo-Saxon financial market. Political considerations reshape the infrastructure of IFRS as a global accounting reporting language and the IASB proposed roadmap guidance.

The top four auditing firms (Kranacher, 2012) indicated that adopting IFRS in the United States was an effective decision as long as the principles-based standard ensured financial comparability and compliance among publicly traded companies. Therefore, China and India continue to raise questions in the world financial market about their IFRS adoption status (Ramanna, 2012). The financial credit crisis from 2007 to 2009 uncovered substantive accounting differences across the global financial market, especially countries reporting under principles-based and rules-based (Madura, 2015).

The substantive accounting differences are found under the fair value accounting method. The IASB and the EU started reshaping the accounting practice under fair value accounting measurement. For example, in 2003, French and German banks protested with regard to the mark-to-market accounting treatment under IAS32 and IAS39. Five countries in the EU (i.e., Belgium, France, Italy, Portugal, and Spain) also resisted the adoption of IFRS and expressed concerns about IAS39. On the other hand, the UK maintained its faith for the capital market institution and continued to support the fair value measurement under principles-based. Therefore, the fair value accounting method under principles-based continued to raise questions in the emerging economies market (Ramanna, 2012).

Principles-Based Historical Approach

In 1904, as noted by Hui-Sung Kao (2014), the International Federation of Accountants (IFAC) held its first meeting in St. Louis to discuss the possibility of adopting a universal accounting standard. By 1973, representatives from the IASC began to develop the foundation of IFRS. The main objective of the IASC was to create one singular accounting language to act as the main iGAAP. The new era of globalization in the financial market caused a wake up call in sectors such as business regulators, investors, finance, multinational corporations (MNCs), and the four top global accounting firms (Poon, 2012).

In 1998, the IASC completed the first portion of a comprehensive IAS. The SEC, in 2002, recommended publicly traded companies that were registered under the International Organization of Securities Commission (IOSC) to present comprehensive financial reporting guidance under IAS to prepare their financial statements in accordance with the same (Poon, 2012).

The IASC understood the importance of creating the IASB and brought the IFRS project as supportive road map guidance in the global financial market. An IFRS timeline is to demonstrate the important chronological events related to IFRS being adopted optionally in the United States (See Appendix A). In 2010, for the first time in the accounting history, the IASC changed its name to IFRS where amended its own accounting constitution. The FASB and the IASB issued a Memorandum of Understanding (MoU) known as the Norwalk Agreement with the intent to help local multinational enterprises meet their financial reporting needs (Poon, 2012).

The convergence process from GAAP to IFRS reshaped the similarities and differences that exist between the two standards. For example, in

2005, IFRS were incorporated in the EU. By 2007, the SEC permitted publicly traded companies in the United States to follow IFRS financial reporting principles-based guidance. In 2008, the SEC granted permission to foreign companies trading on the NYSE to consolidate financial results under IFRS and not to consolidate their financial statements under GAAP. As a result, in 2008, the SEC proposed a road map to guide publicly traded companies in the United States to comply with IFRS reporting guidance. More than 120 countries have adopted IFRS and publicly traded companies have begun to explore the benefits of the same (Poon, 2012).

Figure 1 illustrates a chronological event entitled, "The Road to IFRS," as in 2002, the SEC began road map plan guidance toward the harmonization process from U.S. GAAP to IFRS (Lemus, 2014, p. 2; Warren et al., 2014).

The Road to IFRS

2002	IASB and FASB jointly agree to work toward making IFRS and United States GAAP compatible.
2005	EU adopts IFRS for all companies engaged in international markets. SEC and European Commission jointly agree to work toward a "Roadmap for Convergence".
2007	SEC allows foreign (non-U.S.) companies to use IFRS financial statements to meet U.S. filing requirements.
2008	SEC issues proposed "Roadmap" with timeline and key milestones for adoption to IFRS.
2010	SEC reiterates milestones in the proposed "Roadmap."
2013	Target date for FASB and IASB convergence on major standard-setting projects. Target date for SEC's tentative decision regarding IFRS adoption.
2015	Earliest date the SEC would require IFRS for U.S. public companies.

(Warren, Reeve, & Duchac, 2014, Appendix D-3)

Figure 1. The road to IFRS (Lemus, 2014, p. 2; Warren et al., 2014).

IFRS and Corporate Governance

Corporate governance has gained tremendous importance among shareholders and stakeholders. According to Brigham and Ehrhardt (2014), "Corporate governance can be defined as the set of laws, rules, and procedures that influence a company's operations and the decision its managers make" (p. 528). For the past 2 decades the adoption of IFRS has received a great deal of attention from the SEC and the FASB. For instance, due to the numerous financial scandals in the financial market, the SEC and the FASB attempted to prevent another Enron scandal in the United States, because IFRS had more flexibility in terms of financial reporting than GAAP. The financial scandals in the global financial market were guided by internal weak accounting reporting processes. Local and global companies that adopt corporate governance help prevent accountants from manipulating the financial statements (Ajina, Bouchareb, & Souid, 2013).

For example, the aim of IFRS as a singular accounting language is to improve financial transparency and improve the working relationship among markets. Since the IASB created the IFRS and constructed the conceptual framework of IAS, the reporting disclosure among global companies improved. Therefore, the main goals and objectives of IFRS are to promote transparent financial responsibility among accountants and regulators and promote economic stability without borders (Ajina et al., 2013).

IFRS and Investors

Global investors claim that IFRS as a universal accounting language would improve the comparability of financial statements. Investors are expected to understand the functionality of IFRS. Despite the convergence effort from GAAP to IFRS, technical accounting differences persist between the two accounting standards. For example, under IFRS, property, plant, and equipment are revaluated but under GAAP compliance needs to be followed under historical cost. As a result, IFRS do not allow different accounting treatments for different industry sectors as compared to the GAAP specific accounting standards guidance provided per each industry sector (Poon, 2012).

The importance of IFRS in the Anglo-Saxon market would require more education for investors to facilitate understanding of the financial reporting standard guidance. For instance, empirical research studies suggest that foreign investors hold a high degree of knowledge under the local GAAP and IFRS. Therefore, the SEC would present a work plan that suggests the level of understanding toward the IFRS work compliance requirement (Poon, 2012).

In the global financial market the portfolio holdings under IFRS are important because countries around the globe are communicating using one singular accounting language. IFRS act as a universal accounting language (Aggarwal, Klapper, & Wysocki, 2005; Covrig, DeFond, & Hung, 2007) and relate directly to mutual funds and institutional investors that allocate more capital with efficiency across borders and create a solid market for private equity investment. Beneish and Yohn (2008) promulgated that accounting systems in the convergence process from GAAP to IFRS play a vital role. Therefore, practitioner accountants have indicated the capital investment flow under IFRS is likely to be less than under GAAP (Hail, Leuz, & Wysocki, 2010).

IFRS and Global Stock Markets

In the European stock market IFRS created three important principles: (a) information efficiency, (b) market stability, and (c) adjustment to price. In a literature review conducted by Lambertides and Mazouz (2013) of 20 European countries, results indicated IFRS are used as financial reporting guidance for 1,187 different stocks and were expected to provide sustainability. Also, the researchers noted that IFRS enhances information efficiency and contributes to market stability.

Lambertides and Mazouz (2013) found that across the European market the adoption of IFRS would not affect stock performance. Each country around the globe that had adopted IFRS as a singular accounting reporting language was expected to adjust the equity cost of capital. Therefore, IFRS in common law countries were expected to increase the betas of stocks. On the other hand, civil law countries that adopted IFRS were expected to decrease the betas of stocks (Lambertides & Mazouz, 2013).

Since the research paper written by Bekaert and Harvey (1995), studies conducted in the finance literature have pointed out that global market integration could be attributed to the correlation of market indices. IFRS bring high correlation and efficiency between two stocks by moving in the same direction and applying a high degree of integration. Bekaert and Harvey tested the market integration in 12 emerging economies markets that utilized IFRS finance correlation and results indicated the move to be efficient. Recent research studies that support the previous method were found in the literature review of Heston and Rouwenhorst (1994), Aydemir (2004), Chambet and Gibson (2008), and Eiling and Gerard (2007). Therefore, those who invest in the NYSE should be aware of the existing market regulations under GAAP (Cai & Wong, 2010).

IFRS and the Accounting Profession

Since 1904, professional accountants in the United States have expressed concern about the implications of adopting IFRS. Certified Public Accountants (CPAs) in the United States need to be trained under IFRS accounting system guidance because the level of understanding and knowledge about IFRS is limited. The SEC indicated IFRS professionals who practice accounting under a principles-based system may elect accounting policies for better business practices. As a result, IFRS practicing professionals are expected to possess strong governance and leadership. IFRS are expected to be the future for professional accountants (Dulitz, 2009).

The acceptance of IFRS continues to expand at a rapid pace. CPAs need to be knowledgeable about IFRS, although they are resisting learning the principles-based standards of the iGAAP. On the other hand, as soon as foreign companies commence filing their financial reports under IFRS, professional accountants in the United States will feel the pressure of learning the same and institutional investors will demand financial reporting clarity beyond GAAP standards. Therefore, the IASB suggests that in order to ensure a smooth transition in the convergence process, four sectors should commence the early adoption of IFRS: the business sector, information technology, the Internal Revenue Service (IRS), and the NYSE ("International financial reporting standards," 2008).

IFRS and Higher Education

The adoption of IFRS in the United States will create a demand for education and training because CPAs will need to be trained under the new accounting reporting language. For instance, publicly traded companies, auditors, investors, and rating agencies argue that they will use IFRS if they have been fully trained under the same. Also, specialists from management who are responsible for measuring assets and liabilities need to be trained under IFRS. All parties from different industries and sectors need to undertake comprehensive training preparation under IFRS.

The majority of professional accountants are trained under rules-based accounting, not principles-based. As a result, the IASB suggested including IFRS in the AICPA website publications, certificate programs, and training material. As the convergence process from rules-based to principles-based continues to advance, leaders of colleges and universities are beginning to incorporate IFRS into the accounting curriculum. The SEC suggests that CPAs should be knowledgeable in the principles-based accounting practice guidance ("International financial reporting standards," 2008).

The iGAAP encourages four fundamental principles of high quality financial reporting standards, credible source of information, reliability, and consistency (Kieso et al., 2013). The IASB indicated that through IFRS acting as one singular accounting language, the main purpose is to surpass market efficiency across the globe by fostering financial sustainability among emerging economies markets and facilitate international integration. Education in international accounting is relevant to the changes that are expected to come in the accounting industry. For example, professional accountants are constantly challenged to maintain high levels of competence and integrity in the market as well as serve the public interest. The vision and mission of the International Federation of Accountants (IFAC) is to promote a solid and universal accounting language among emerging economies markets versus developed economies. Therefore, the main objective of IFRS is to promote four principles: financial reporting quality, reliability, transparency, and consistency (Hall & Bandyopadhyay, 2012).

Figure 2 illustrates (Bates, Waldrup, & Shea, 2011, p. 41) the top 20 undergraduate and graduate programs in the United States adopting IFRS into their accounting curricula (Rivero & Lemus, 2014, p. 48).

Table 1 : International Accounting Course Offerings At Top Accounting Programs Undergraduate Programs	
Undergraduate Programs	
Required Courses:	
University of Georgia	Accounting Information in a Multinational Setting (3 credit hours)
University of Illinois	Introduction to Internal Accounting (3 credit hours)
Miami University (Ohio)	Survey of International Accounting and Reporting (1 credit hour)
Notre Dame University	International Accounting (3 credit hours)
Texas A & M University	International Accounting (3 credit hours)
University of Virginia	International Finance and Accounting (3 credit hours)
Wake Forest University	International Accounting (3 credit hours)
Master's Programs	
Required Courses	
Michigan State University	Management Accounting in Global Enterprises (3 credit hours)
Texas A & M University	International Accounting (3 credit hours)
Elective Courses	
Brigham Young University	International Accounting and Multinational Enterprises (3 credit hours)
University of Florida	International Accounting Issues (2 credit hours)
University of Georgia	International Accounting (1.5 hours)
University of Illinois	Multinational Enterprise Accounting (4 credit hours)
Michigan State University	Management Accounting in Global Enterprises (3 credit hours)
University of Mississippi	International Accounting (3 credit hours)
University of North Carolina at Chapel Hill	Global Immersion (3 credit hours)
Notre Dame University	International Financial Reporting Standards (2 credit hours)
University of Southern California	Accounting for the Global Business Environment (3 credit hours)
University of Texas – Austin	International Accounting Policies and Procedures (Variable credit hours)

(Bates, Waldrup & Shea, 2011, p.41)

Figure 2. Top 20 undergraduate and graduate programs in the United States adopting IFRS in the accounting curricula.

The SEC indicated that in the convergence process from GAAP to IFRS, accountants, auditors, financial analysts, and investors need to reinforce their accounting and financial skills related to a principles-based language. Professional associations (Kroll, 2009), colleges, and universities have started providing training material about IFRS. College professors have suggested attending international accounting seminars on a yearly basis. The top four auditing firms have arranged seminars that last from 1 day to several days on the subject of the convergence process from GAAP to IFRS. For example, Grant Thornton has international accounting seminar courses and also brings in subject matter experts from Canada. Deloitte Touché Tohmatsu offers free learning seminars online about IFRS. PricewaterhouseCoopers (2010) in 2009 gave $700,000 in grants to 26 colleges to expedite and support the learning process of IFRS. The AICPA announced that after January 1, 2011, students majoring in accounting who were seeking to sit for the CPA exam would face one section solely based on IFRS (Moqbel, Charoensukmongkol, & Bakay, 2013).

IFRS and Accounting Standards Setters

In 2008, the SEC presented a plan to guide publicly traded companies in the United States holding at least $700 million to commence consolidating their financial reports in accordance with IFRS. The SEC proposed that the top 500 publicly traded companies in the NYSE would adopt IFRS as early 2014. Small companies were expected to adopt IFRS from 2015 to 2016. Therefore, the optional official adoption of IFRS began in January 1, 2014 (Liu & Hiltebeitel, 2010).

The SEC issued five key principles within the IFRS road map guidance. The first key principle was the transparency and clarity of IFRS acting as one singular accounting language. The second key principle was the quality of audit reports and financial reporting under IFRS. The third key principle was fund availability by the IASB to support the principles-based adoption process. The fourth key principle was to compare publicly traded companies that consolidated their financial reports under rules-based versus principles-based. The fifth key principle consisted of global accountant regulators supporting the convergence process.

Accountant regulators need to offer comparability and consistency under IFRS. Auditors have noted that because the United States will in the near future adopt the IFRS, accountant regulators need to provide more auditing guidance under principles-based assurance. The governance of IFRS plays a vital role in the adoption process and the IASB needs to disclose the financial mechanism to the SEC. As a result, the top 500 publicly traded companies in the NYSE will provide a consistent approach toward the convergence process. Therefore, the SEC is expected to create the necessary educational training programs to educate accountants in the United States about IFRS (Jamal et al., 2010).

Arguments for and Against IFRS

Cathey, Schauer, and Schroeder (2012) presented 10 arguments that support IFRS in the U.S. market:

- The majority of publicly traded companies in the United States want to adopt IFRS.
- IFRS will restore public trust in the global financial market.
- GAAP and IFRS present similar points of view in terms of reliability and quality assurance.
- The majority of countries around the world prefer to adopt IFRS and not continue with their local GAAP.
- The SEC demands that the IASB ensure the IFRS offer a degree of financial compliance in the Anglo-Saxon market.
- The adoption cost of IFRS could be spread in different future payments.
- The United States would not loss its sovereignty over the accounting standards.
- The United States needs to adopt IFRS voluntarily.
- The United States, by adopting IFRS, would help to promote the global economy.
- The majority of nations around the world share a mutual sentiment toward the adoption of IFRS acting as one singular language.

According to the SEC (2011), the FASB should focus its authority efforts as follows:

- Able to add disclosure requirements under IFRS to achieve greater financial consistency.
- Recommend that the IASB add under IFRS two or more alternatives of accounting standards treatment.
- Issues that were not fully resolved under GAAP or IFRS need to be resolved prior to the convergence accounting process.

Cathey et al. (2012) indicated that the adoption of IFRS would improve the financial reporting standards across the globe by providing strong corporate governance and international markets would be more capital oriented. On the other hand, researchers have found there are arguments against IFRS. The 12 arguments against IFRS are as follows:

- IFRS will not adequately represent the world financial market.
- The convergence process from GAAP to IFRS will decrease financial reporting quality in rules-based territories.
- Possible lack of uniform accounting mechanism throughout the world.
- IFRS are more opinion oriented rather than following rules.
- Empirical research studies indicate IFRS in the United States would encounter the same cost adoption problem as Sarbanes Oxley Section 404.
- Small companies that adopt IFRS will suffer a high financial burden.
- Accountant regulators argued that IFRS are more flexible than U.S. GAAP.
- The GAAP is not superior to IFRS, indeed both accounting standards present pros and cons.
- There are accounting similarities and differences between GAAP and IFRS.

- IFRS proposes a different set of corporate governance guidance as compared to the GAAP.
- The United States will lose influence over GAAP.
- The resistance in the United States to accept a radical accounting change such as adopting IFRS as a singular accounting language.

Accountant regulators and researchers in the accounting industry have indicated that once the SEC fully adopts IFRS it is likely that the financial reporting quality in the United States will decrease. As a result, IFRS will bring opinions from the principles-based accounting position and increase earnings management. Therefore, IFRS in the United States are expected to face the same acceptance challenge as Sarbanes Oxley Section 404 (Cathey et al., 2012).

CPAs' and CFOs' Attitudes Toward the Harmonization of International Accounting

CPAs and CFOs have presented their professional points of view as to whether it would be beneficial to adopt IFRS in the United States. Research studies indicate there is a high acceptability of IFRS around the world. The overall professional attitudes of CPAs and CFOs toward the harmonization process are positive. For instance, CPAs from other countries are more optimistic than CPAs and CFOs from the United States. CPAs in the United States appear to be more receptive than CFOs with respect to the financial reporting process under IFRS (Barniv & Fetyko, 1997).

McEnroe and Sullivan (2012) compared the attitudes of auditors and CFOs in the United States and found that auditors would rather continue with rules-based than move to principles-based, because under IFRS there is room for ambiguity that could lead to potential litigation. On the contrary, CFOs appear to support IFRS more than auditors, because IFRS offer more financial reporting flexibility as compared to GAAP. CPAs and CFOs in the United States agree that there are accounting technical differences between GAAP and IFRS. Also, there is strong support for GAAP and IFRS among professional accountants.

For example, results of the McEnroe and Sullivan (2012) survey study revealed that 38% rules-based would be cost effective. On the contrary, the second part of the survey study illustrated that 50% principles-based would be cost effective. The remaining 12% of respondents appeared to be somewhat neutral and have faithful representation regarding the two standards. In terms of commercial reality, 91% of the respondents indicated IFRS appear to be consistent, while 56% mentioned that rules-based appear to be acceptable. Therefore, the majority of CPAs and CFOs attest that the harmonization process would be beneficial for the United States because it would help to attract more foreign investors and raise more capital within international markets (McEnroe & Sullivan, 2012).

The SEC is likely expected to accept IFRS voluntarily and have in place two different accounting standard settings. The rationale for having in place two different accounting standard settings is to support the accounting profession in the United States and reduce the adoption cost for publicly traded companies. In 2010, the SEC restructured the conceptual framework of the two accounting standards acting as one singular voice in the Anglo-Saxon market (McEnroe & Sullivan, 2012).

2. Financial Quality of IFRS

Emerging Markets

Empirical research studies suggest IFRS can be classified into three groups: Anglo-Saxon, Continental European, and the emerging economies market. The new emerging economies markets are Brazil, Russia, India, China, and South Africa (BRICS). For instance, the Netherlands interestingly came closer to South Africa in terms of adopting IFRS. As a result, one of the main advantages of IFRS (Soderstrom & Sun, 2007) is a singular financial reporting language.

IFRS in Germany

In 1998, Germany was using two accounting sets of standards, which brought inconsistencies in the financial interpretation by publicly traded companies and accountants. As a result, as noted by Nobes (2006), Germany felt the need to adopt the EU principles-based requirement. Therefore, by 2005, publicly traded companies in the EU were fully accepting principles-based (Sarquis, Luccas, Lourenço, & Dalmácio, 2014).

IFRS Foundation

In 2013, the IFRS Foundation (2013) conducted a survey of 81 jurisdictions and analyzed progress toward the adoption of IFRS. The results indicated 70 jurisdictions had adopted IFRS and 11 jurisdictions had not been engaged in the convergence effort to adopt IFRS. The researchers in the literature review (as cited in Kvaal & Nobes, 2010) illustrated that accounting systematic differences under IFRS and the IASB standards exist and are attributed to different accounting policies among countries. Appendix B contains information related to the importance of policy choices and variation of financial reporting strategy that exist in each individual country that has adopted IFRS. Results suggest adopting pre-IFRS and then moving toward the full convergence process, as in the largest five stock exchanges (i.e., Australia, France, Germany, Spain, and the UK; Nobes, 2006) leads to a sustainable market in relation to accounting policies, comparability, and transparency. The IFRS Foundation jurisdictions and policies reveal that Brazil, Russia, and South Africa have adopted IFRS (Sarquis et al., 2014; See Appendix C).

IFRS in Brazil

In 2010, Carvalho and Salotti (2013) Brazil adopted a mandatory IFRS. Publicly traded companies had to consolidate their financial statements in accordance with principles-based. The financial statements that appear unconsolidated follow the BRGAAP. The Brazilian financial market demonstrates a high degree of complexity.

IFRS in Russia

In 2012, Russia adopted a mandatory IFRS. Financial regulators in the Russian market expected publicly traded companies to consolidate their financial statements under IFRS. On the other hand, publicly traded companies that showed consolidated financial statements under GAAP were not required to comply with IFRS. Companies filling under GAAP in Russia are likely to commence adopting IFRS this year. Vysotskaya and Prokofieva (2013) attested that Russia has not officially implemented IFRS for all businesses, but most importantly incorporated IFRS in the accounting system.

IFRS in South Africa

In 2005, South Africa adopted IFRS. The publicly traded companies that were listed under the Johannesburg Stock Exchange (JSE) comply with the consolidated financial report under IFRS. Historically, South Africa developed a long-term relationship with the IASB. The financial reporting language in South Africa was SAGAAP, which was identical to IFRS and withdrawn from South Africa on December 1, 2012 (Coetzee & Schmulian, 2013).

IFRS in China and India

China and India have not adopted IFRS as of yet. China has adopted a local accounting standard and few Chinese companies that are competing in the foreign market have fully adopted IFRS. India has a commitment its local accounting standards, but is likely in the near future to make a strong commitment to adopt IFRS as a singular accounting standard (Sarquis et al., 2014).

The BRIC countries are important in the convergence process. Biancone (2013) wrote that accounting differences and practices exist at local and global levels. The main priority of the IASB among different countries is in the “convergence” rather than to “adopt,” because through moving toward the convergence process well developed and developed economies are expected to amend their accounting standards. As a result, IFRS acting as iGAAP can create a better reporting language among accountants. Therefore, the accounting dynamics of China and India are to adopt IFRS, otherwise China and India will be affected by their emerging competitors in a global economy context (Biancone, 2013).

In 2009, the IASB noted it wanted to build long-term objectives by creating a competitive high quality standard such as IFRS. According to Chua, Cheong, and Gould (2012), a high quality accounting standard is perceived to be the world's most competitive accounting practice and supported to be more capital oriented by meeting local accounting standards demand.

The nature of IFRS is principles-based (Carmona & Trombetta, 2008) to encourage accounting firms to promote financial reporting clarity and transparency (Maines et al., 2003). Barth, Landsman, and Lang (2008) showed that IFRS promote high quality financial reporting standards. For example, the researchers studied a sample of 21 countries that voluntarily adopted IFRS and found all countries showed a consistent relevance of income. Therefore, the researchers suggested countries that voluntarily accepted IFRS have witnessed a higher quality accounting standard as compared to non-voluntary countries (Chua et al., 2012).

Countries that voluntarily adopt IFRS (Pownall & Schipper, 1999) have the advantage of enjoying a superior comparability of high quality financial reporting when competing in different industries and markets across the globe. IFRS acting as a singular language provides an added value to the world financial market. For example, 13 accounting firms from different countries have indicated communicating the financial results in one universal accounting language can ease the process of consolidation and interpretation of the same (Ashbaugh & Pincus, 2001). Also, the forecast accuracy is likely expected to increase under principles-based. As a result, as noted by Ball (2006), IFRS will serve as a vehicle to help eliminate differences in accounting standards and will evaluate the world financial market under one umbrella (Chua et al., 2012; Daske, Hail, Leuz, & Verdi, 2008; Jeanjean & Stolowy, 2008).

Management is expected to engage in better decision-making by utilizing higher quality information. IFRS enhances accounting financial reporting quality and trading volume is expected to increase among countries. Paananen and Lin (2009) attested that as more countries continue to adopt IFRS, the quality will tend to worsen.

Germany is a world class example of the decision to adopt IFRS mandatorily. Christensen, Lee, and Walker (2008) mentioned that Germany had a positive result in adopting IFRS because it decided to delay the official adoption date as well as understand in depth all the possible pros and cons from the accounting perspective. For example, as noted by Jeanjean and Stolowy (2008) when Australia, the UK, and France adopted IFRS, earnings were consistent with principles-based guidance. Therefore, from previous adopters' experience, IFRS appear to be reliable accounting principle standards and achieve efficiency through capital earnings oriented approach (Chua et al., 2012).

In 1973, the IASC was replaced by the IAS. The IASC was an independent committee from the private sector with the objective of providing uniformity from the accounting standard setting perspective by engaging businesses and financial reporting organizations from around the world. The independent committee was created by 10 countries: Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the UK, Ireland, and the United States. As a result, the main four objectives of the IASB as an independent committee were to:

- Develop one singular accounting language that promotes high financial reporting quality, helps users of financial statements to make economic decisions, and supports accountants' public interest.
- Present a rigorous set of accounting standards.

- Create IFRS for small entities and medium sized companies that are competing in the emerging economies market.
- Continue with the convergence process from GAAP to IFRS.

The former chairman of the SEC, Christopher Cox, supported the adoption of IFRS because IFRS empower investors to make a better economic decision and can serve as one iGAAP. Obviously, the debate of financial reporting has changed from time to time.

The AICPA conducted a survey and results indicated 55% of the CPAs in the United States are preparing for the adoption of IFRS. Therefore, since 1970, the debate between FASB and the IASB is to have one singular accounting language by 2016 (Stanko & Zeller, 2010).

3. Conceptual Framework: Convergence Efforts from GAAP to IFRS

Since the time of the Roman Empire, each country has developed its own local GAAP. The comparison of financial statements among business firms has been a complex task to accomplish because major accounting differences can be found in the capital allocation across business firms competing in different market economies. For example, as indicated by Stanko and Zeller (2010), more than 12,000 companies from 100 different countries are presently consolidating and reporting financial results under IFRS. Wicek and Young (2010) attested that there is an existing inefficiency of capital utilization across the globe. Therefore, MNCs have indicated that by reporting financial information under one selected accounting standard accounting, technical similarities and differences would not exist (Yallapragada, Roe, & Toma, 2013).

The ultimate goal of IFRS is to establish a competent and rigorous accounting standard. The United States will benefit from adopting IFRS because it will help to bring back firms that are presently conducting business in the emerging economies market and create more jobs. Once the United States adopts the IFRS, American companies do not have to report financial results under both GAAP and IFRS. Also, it is expected that the compliance cost will decrease. The general conceptual framework and principles of accounting practices are quite similar under the two accounting systems. As a result, the United States is considering adopting IFRS and the SEC needs to continue with the convergence efforts. Therefore, proper strategic planning is required for the adoption of IFRS in the U.S. market (Elena et al., 2009).

The adoption of IFRS in the United States will shift the accounting perspectives on the actual standards. The SEC's primary responsibility is to continue developing accounting standards for publicly traded companies. The FASB is a private organization and promulgates the SEC accounting standards as mandated. For instance, the SEC has the legal authority to modify or overturn any rule established by the FASB. The SEC influences the FASB's decision-making process. A direct influence by the SEC is found in the Emerging Issues Task Force (EIFT), where a Chief Accountant from the SEC participates in regular meetings. As a result, even if the FASB and the IASB are working together in the convergence effort in the United States, the SEC has the final decision of whether to adopt principles-based in the Anglo-Saxon financial market. Therefore, the adoption of IFRS will benefit the U.S. capital market in a positive financial avenue (Bradshaw et al., 2010).

The SEC does not want the IAS to have a monopoly in place because once IFRS is fully adopted the adoption cost is likely expected to increase. The FASB's involvement in the convergence process from GAAP to IFRS is crucial because the FASB maintains its professional perspective and informs the SEC of any changes. Sunder (2009) recommended that firms select the accounting standard, not accountant regulators on their behalf. Investors in the United States want a better reporting rules system and managers will choose the application of the accounting standard. Therefore, if IFRS are adopted in United States, accountant regulators expect that IFRS will enhance the accounting reputation in terms of transparency and financial reliability (Kranacher, 2012).

The IASB has constructed a better definition for the fair value method. Accountant regulators indicate the fair value method under IFRS contradicts the fair value method under GAAP. The FASB, prior to the joint meeting conference, stated that the fair value method under the two accounting standards should be consolidated at best. Obviously, the IASB laid the groundwork of the fair value definition and the FASB provided some general guidance as a reading characteristic point of comparability from the financial reporting aspect. The collaboration effort between the FASB and the IASB can secure a better harmonization process. The FASB and the IASB agree to one universal definition for the fair value method. Therefore, in the accounting history having a universal fair value definition is a great accomplishment and the FASB appears to be more realistic in the convergence process from GAAP to IFRS (Shanklin, Hunter, & Ehlen, 2011).

FASB and IASB Joint Project—Revenue Recognition

In 2010, the FASB and the IASB issued an exposure draft concerning the core principles of revenue recognition. The core principles of the revenue recognition address four critical steps:

> Step Number 1. Allocate in the contract the performance and obligations.
> Step Number 2. Explain the importance of transaction price.
> Step Number 3. Allocate the transaction price in the contract.
> Step Number 4. Understand the principle guidance of revenue recognition stipulated in the contract.

Dickins and Cooper (2010) identified major differences in the exposure draft issued by the FASB and the IASB. The major differences include contract completion percentage, changes in the sale of goods and services, the collectivity of revenue recognition, and the specific time to recognize the revenue. Therefore, the most important revenue recognition that exists under IFRS is IAS No. 1, IAS No. 18, and IAS No. 20 (Dickins & Cooper, 2010).

GAAP Revenue Recognition

The FASB defined revenue under Statement No. 6 as services rendered and related to other operational outcomes as inflows of cash producing goods. Revenue recognition under GAAP should meet two important criteria. The first is to meet the expectation of the FASB Concept Statement Number 5. The second is revenue must be earned and realized. For example, the most important statement under GAAP is SAB Number 104. It shows publicly traded companies should properly disclose the income recognition. Therefore, research shows that prior to the codification of the FASB accounting standards enactment in terms of treating revenue recognition, 100 pieces already existed under GAAP (Bohusova & Nerudova, 2011).

IFRS Revenue Recognition

The IAS and IFRS in the conceptual framework define income and expenses. The principles-based treatment of revenue recognition considers two standards: IAS No. 18.Revenue and IAS No. 11.Construction Contracts. The revenue recognition under IFRS provides a future economic benefit to enterprises. For instance, IAS No. 18 allocates gross income from ordinary activities created by economic events and the participants' equity increases. IAS No. 18 highlights that treating each revenue criteria is important, because sales and goods help create gain on interest, dividends, and royalties. IAS No. 11 indicates that revenue and cost should be incurred by the company. Therefore, the most relevant revenue recognition standards that exist under IFRS are IAS No. 11 and IAS No. 18 (Bohusova & Nerudova, 2011).

Differences Under GAAP and IFRS

The major difference that exists in terms of treating revenue recognition under GAAP and IFRS is the classification of the standards (See Appendix D). Presently, many industries and sectors in the United States report company revenue under GAAP, while fewer industries appear under IFRS.

Spiceland, Sepe, and Nelson (2011) noted that in order to recognize revenue under IFRS two events must occur: (a) the earnings process needs to be judged, and (b) a reasonable collection of the asset must be received. For instance, under GAAP, in order for revenue to be recognized four criteria must be met:

- The reliability of the cost must be associated with revenue.
- The economic benefit should flow through the seller.
- The seller must transfer ownership.
- Sale services need to be measured.

Therefore, the revenue recognition differences that can be found under GAAP and IFRS relate to how the two accounting standards interpret the accounting conceptuality guidance in recognizing revenue (Lin & Fink, 2013).

Lease Accounting Standards Under GAAP and IFRS

The SEC, the FASB, and the IASB continue to make progress with the convergence process from GAAP to IFRS, and understanding the leasing activity under the two accounting standards is imperative. The operating and capital leasing presents an ideal context for research under GAAP and IFRS. CPAs indicate leases under GAAP should be classified as operating or capital leasing (Mergenthaler, 2009).

Scholars in the accounting arena (as cited in SEC, 2003; see also Collins, Pasewark, & Riley, 2002) have criticized the structure of leasing financial reporting under GAAP. On the contrary, IAS No. 17 is principles-based under IFRS and does not provide a specific structure for lease classification. Collins et al. (2012) mentioned in the literature review of their study that both accounting standards have provided extensive material in treating the aspect of leasing, which by its nature is complex. Also, it can be noted that the similarities and differences under GAAP and IFRS as to the reporting of capital and operating leases require the minimum payment for capital lease to be reported in the balance sheet and both standards require a minimum annual lease until both capital and operating lease mature in the fifth year (Collins et al., 2012).

The treatment of capital and operating lease in the financial statements is quite different. The lease accounting standards under GAAP and IFRS have significant distinctions. For example, lease accounting under GAAP follows the following treatment:

- Estimate the life of the asset.
- The present value is use at a fair value of the life of the asset.

For instance, ASC 840, formerly known as FAS 13, requires capitalization to estimate the life of the asset or 75% of straight capitalization. On the contrary, lease accounting under IFRS is IAS 17, which is less specific and only requires capitalization when the lease term is superior to the asset's useful life. Additionally, ASC 840 requires a lease payment when the lease payment equals or exceeds 90% of the asset's fair value. In this respect, IAS 17 continues and remains less specific, because the lease payment is substantially equal over the life of the asset. As a result, the strategy of the IASB under IAS 17 is to increase economic substance and at the same time discourage the lease transactions by being specific (Collins et al., 2012).

Major corporations in the United States under ASC840, formerly known as FAS 13, exploit the possibility of structuring capital leasing by avoiding the classification of leases (as cited in Imhoff & Thomas, 1988; Lipe, 2006). Other scholarly accountants have indicated FAS 13 changed the financial structure of capital and operating lease. The IFRS presents four criteria of lease accounting under IFRS IAS 17:

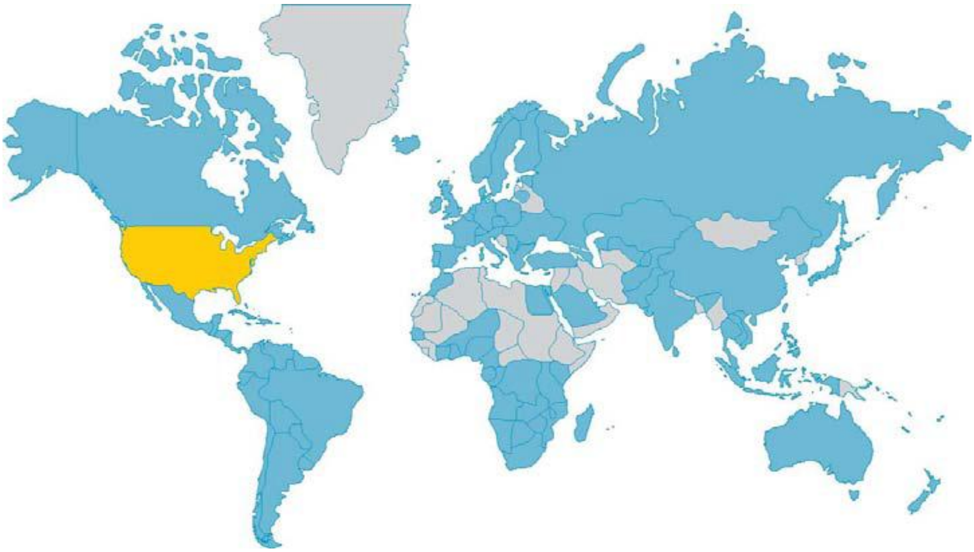
- The asset specialization
- The cancellation costs
- The residual related risk value
- Negotiate the lease options

As a result, because IAS 17 is principles-based it does not contain bright-lines. According to Kieso et al. (2013), bright-line is defined as the "75 percent of useful life and 90 percent of fair value 'bright-line' cutoffs in GAAP" (p. 1334). The IASB, in an effort to stay at abreast with lease accounting in the convergence process from GAAP to IFRS, adopted the four criteria mentioned previously under IAS 17 to help prevent lease misclassification (Collins et al., 2012).

The classification of a lease is an important philosophical topic under GAAP. Cerutti, Nickell, and Young(2010) defined lease accounting. Also, Mergenthaler (2009, p. 9) supported the definition indicated previously as lease accounting bright-line thresholds. As a result, under GAAP, lease accounting presents four characteristics:

- The thresholds bright-lines
- The legacy expectation of the lease
- The lease implementation guidance
- The lease consolidation accounting work (Collins et al., 2012)

Figure 3 illustrates countries in blue that have officially adopted IFRS and the United States in yellow that has not adopted IFRS as of yet.



Anguilla	Antigua and Barbuda	Armenia	Austria
Australia	Bahamas	Bahrain	Barbados
Belgium	Bosnia and Herzegovina	Botswana	Brazil
Bulgaria	Chile	Costa Rica	Croatia (Hrvatska)
Cyprus	Czech Republic	Denmark	Dominican Republic
Ecuador	Egypt	El Salvador	Fiji
Georgia	Ghana	Gibraltar	Grenada
Greece	Guatemala	Guyana	Haiti
Honduras	Hong Kong	Iraq	Israel
Jamaica	Jordan	Kazakhstan	Kenya
Kuwait	Kyrgyzstan	Laos	Lebanon
Lesotho	Macedonia	Malawi	Maldives
Mauritius	Mongolia	Montenegro	Morocco
Mozambique	Myanmar	Namibia	Netherlands Antilles
Nepal	New Zealand	Nicaragua	Oman
Panama	Papua New Guinea	Paraguay	Peru
Qatar	St. Kitts and Nevis	Saudi Arabia	Serbia (Republic of)
Sierra Leone	South Africa	Sri Lanka	Suriname
Swaziland	Switzerland	Tajikistan	Tanzania
Trinidad and Tobago	Turkey	Uganda	Ukraine
United Arab Emirates	Virgin Islands (British)	West Bank/Gaza	Zambia
Zimbabwe			

Source: http://www.iasplus.com/country/useias.htm.

Figure 3. Countries that have officially adopted IFRS (Warren et al., 2014, Exhibit 1, Appendix D-2).

4. Summary

This chapter contained important findings related to 18 critical areas that explain the resistance to the change from GAAP to IFRS. The EMH was examined because it helped the researcher evaluate the financial crisis from 2007 to 2009 as related directly to the comparability and transparency of IFRS. Empirical research studies suggest IFRS could be classified as Anglo-Saxon, Continental European, and emerging economies. Chapter 3 includes a comparison of qualitative and quantitative research methods, the researcher's rationale, research design, data coding and analysis techniques, quality, credibility, ethical issues, and reflexivity and the researcher's voice.

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