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The Evolution of the IASC into the IASB, and the Challenges it Faces

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ABSTRACT: In this article, I undertake to review the major developments and turning-points in the evolution of the IASC, followed by the evolution of the IASB. At the conclusion, I suggest five challenges facing the IASB.

Keywords: IASC; IASB; IAS; IFRS; standard setting; regulation.

I. INTRODUCTION

In the past several years, most accounting academics have been paying close attention to the International Accounting Standards Board (IASB) and its production of International Financial Reporting Standards (IFRS). In its short life, since 2001, the IASB has vastly reshaped the world map of company financial reporting. But it was the International Accounting Standards Committee (IASC), during its 27 years from 1973 to 2000, that set the stage for the IASB, which in turn emerged from the IASC.[1] It is timely to provide some historical perspective that might shine a useful light on the IASB of today. My focus in this article will be on the major developments and turning-points in these 37 years of evolution, and to suggest some of the challenges that the IASB faces today.

The story that unfolds in this article is based on historical research. Such research seldom yields simple, unambiguous explanations of causes and effects and the reasons for events and developments. Nonetheless, I have endeavored to use the fruits of this research to explain the evolution in the manner of a story, but with asides and occasional qualifications and digressions to bring out more than just two dimensions. I will emphasize the earlier more than the later years not

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[1] Most of the factual matter in this article supporting the discussion of the IASC period, from 1973 to 2000, has been drawn from Camfferman and Zeff (2007). In places where the reader might wish to consult the fuller coverage in the book, including relevant citations, I will insert (CZ 2007) and the page or chapter numbers. Chapter 1 of the book contains a 12-page overview of the evolution of the IASC.

only because it is more difficult to acquire historical perspective on very recent events and developments, but also because the IASB has received much more attention by a wider audience in recent years.

The evolution of the IASC and the IASB is the tale of a private-sector international accounting standard setter that has succeeded in earning the respect and support initially of national accounting bodies, then of national standard setters, and ultimately of regulators in the major capital markets and of government ministries, as well as of the preparers and users of financial statements around the world. Some of its success has been due to good timing: it was the only competent international accounting standard setter in the late 1990s when the European Union (EU) was bent on creating an internal capital market and the European Commission was seeking an alternative to U.S. GAAP as the source of required accounting standards for the EU's listed companies in that market. The European Commission's surprise proposal in 2000 to commit EU listed companies to adopt International Accounting Standards by 2005 caught the world's attention, and other countries began taking the IASC seriously as the world's accounting standard setter. With this acceptance of its standards, the IASB (as the IASC came to be known in 2001) entered a high-stakes game in which companies and governments became proactive players, and regulators took a seat at the table.

II. BACKGROUND TO THE FOUNDING OF THE IASC

Following World War II, each country had its own Generally Accepted Accounting Principles (GAAP, the U.S. designation), or proper accounting practice. Even among the GAAPs in countries with active equity capital markets on which listed companies depended heavily for finance—the United States, Canada, the United Kingdom, Australia, and New Zealand—there were important differences. For example, in the U.K., Australia, and New Zealand, companies could revalue their property, plant, and equipment (PPE), including investment property. In the U.S. and Canada, mainly because of the conservative influence of the Securities and Exchange Commission (SEC) (see Zeff 2007a), companies adhered to historical cost. In North America, LIFO was widely available for inventories in the U.S., but in Canada its use was confined to a few industries (Skinner 1972, 79). In 1975, the New Zealand standard setter issued a standard, SSAP 3 on depreciation, which required the use of the straight-line method (see Zeff 1979, 59). No other countries have done likewise.

An even greater gulf existed between the GAAPs in these Anglo-American countries and those in countries on the European continent and in Japan, where income taxation drove accounting practice, where reported profit determined by law the dividend to be declared, and where financial results could be manipulated by secret reserves. In 1947, France established the *Plan comptable général*, or National Accounting Plan, a detailed, codified regulation of company accounting, which France then exported to Belgium and Spain and eventually to Portugal, Morocco, Tunisia, Algeria, and Peru (see Scheid and Walton 1992, Chap. 7). In most developing countries, financial disclosure was minimal and there was little that could be called GAAP beyond what they might have inherited from former colonial masters, such as the U.K. or France. In sum, worldwide accounting practice was highly diverse (see, e.g., Nobes 1983) and meaningfully comparing financial statements from one country to the next was very difficult.

The 1950s began a period of rapid growth of international trade and foreign direct investment, and companies began to expand their reach beyond their borders. Leaders of the accounting profession saw "international" as the new challenge. The American Institute of Certified Public Accountants (AICPA) hosted the Eighth International Congress of Accountants in September 1962 in New York City with a theme on accounting and auditing in the world economy. Less than two years later, the AICPA published *Professional Accounting in 25 Countries* (1964), which was the

first major volume to survey accounting, auditing, and professional standards around the world (CZ 2007, 21–26).

The 1960s were marked by frequent international mergers and acquisitions, especially American corporations taking over European companies, and once-domestic companies began to redeploy their production operations as well as their management team internationally. In April 1963, *Business Week* ran a special report on the new form of business organization called "multinational companies." "Multinational," the magazine wrote, "serves as a demarcation line between domestically oriented enterprises with international operations and truly world-oriented corporations" (Multinational Companies 1963, 63). This internationalist trend heightened the desire to compare financial statements prepared in different countries.

Sir Henry Benson (later Lord Benson), senior partner in the U.K. firm of Cooper Brothers & Co. (later Coopers & Lybrand and now part of PricewaterhouseCoopers) and the 1966–1967 president of the Institute of Chartered Accountants in England and Wales (ICAEW), led a movement to tackle the issue of diverse accounting practices. Benson, who was born and bred in South Africa and then immigrated to the U.K., was a determined and resourceful man. In 1966, he persuaded the AICPA, the Canadian Institute of Chartered Accountants (CICA), the Institute of Chartered Accountants of Scotland, and the Institute of Chartered Accountants in Ireland to join with the ICAEW to form the Accountants International Study Group (AISG). The AISG issued a series of booklets that compared the accounting and auditing approaches in the U.S., Canada, and the U.K. Among other things, Benson hoped that a comparison of auditing approaches in the three countries would, at long last, convince the U.K. accounting profession to require the auditor to be present at the taking of inventory, and he succeeded in that endeavor. Over a period of more than ten years, the AISG issued 20 such booklets, which represented the first major effort to compare and contrast accounting and auditing practices across leading countries (CZ 2007, 26–36). The AISG booklets highlighted the diversity in practice among the three countries and, therefore, the non-comparability of financial statements across borders.

III. LAUNCHING OF THE IASC

Benson's encore initiative in 1973 was even more portentous. Following correspondence and meetings with the leaders of accounting bodies from around the world, Benson led the founding of the International Accounting Standards Committee (IASC). His motivation was to promote the international harmonization of accounting standards, to lessen the differences in accounting practices among countries. There may well have been U.K.-centric reasons as well. In 1973, the United Kingdom, together with Ireland and Denmark, entered the European Economic Community (EEC, known today as the European Union). Until then, Germany's tax-oriented approach to accounting had been driving the development of the Fourth Company Law Directive on accounting,[2] which was to be incorporated in legislation by all member states after it had been approved by the Council of Ministers. Benson and others in the U.K. may have believed that the IASC might promote standards more aligned with the Anglo-American approach to accounting, and thus serve as a countervailing force to the trend of accounting development in the EEC. Anthony Hopwood (1994, 243) has argued that "a key impetus for the establishment of the IASC" was to forestall "the imposition [in the EEC] of continental European statutory and state control on the much more discretionary relationship between corporate management and the auditor in the UK."

[2] In 1978 and 1983, the European Commission promulgated two Company Law Directives on accounting, designated as the Fourth Directive on annual accounts and the Seventh Directive on consolidated accounts, respectively. Their aim was to harmonize the company laws of the EEC member states, which were then required to incorporate them into their national legislation.

The notion of "true and fair view" in U.K. company law was unique to the British accounting culture and had no counterpart in legislation on the continent. Benson may have also pushed for the IASC because he was not enamored of the quality of U.K. accounting standards and believed, as with the impact on U.K. auditing practice produced by the AISG booklet on inventories, that U.K. accounting standards and practice could benefit by its accounting bodies joining in a collaborative standard-setting venture at the world level. Indeed, even before the IASC issued its first standard, Benson persuaded the London Stock Exchange to require listed companies to disclose departures from IASC standards, thus putting pressure on the U.K.'s recently launched Accounting Standards Steering Committee and on U.K. companies to conform to the practices recommended in the IASC's standards (CZ 2007, 154).

The IASC was the first attempt to set accounting standards internationally. In 1973, few countries had committees or boards whose recommendations influenced the course of accounting practice.[3] In order of chronology, these countries were: the U.S., the U.K., Canada, France, Japan, Australia, and New Zealand. The Netherlands and South Africa had only recently launched such bodies. The nine countries whose national accounting bodies Benson invited to join the IASC were, alphabetically: Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland (combined), and the United States. Each country was represented by a delegation of, at most, three members: two who decided on the delegation's vote and a staff observer. Each delegation had one vote. Initially, the AICPA alone sponsored the U.S. delegation, but eventually the Financial Executives Institute (FEI) and the Institute of Management Accountants became co-sponsors. It is an interesting coincidence that the IASC came into being on June 29, 1973, two days before the Financial Accounting Standards Board (FASB), an independent body, succeeded the Accounting Principles Board, which was a committee of the AICPA. The AICPA was one of the five sponsors of the Financial Accounting Foundation, which oversaw the FASB, but it was now also the sponsor of the U.S. delegation to the IASC, which some might have viewed as a competitor of the FASB, as I will describe.

The members of the nine delegations were initially audit firm partners, sole audit practitioners, executives of national accounting bodies, an academic, and a financial executive, all serving on a part-time basis. In ensuing years, more financial executives and financial-statement users became members. In addition to their "day jobs," delegates attended IASC Board meetings three to four times yearly and read the documentation provided by the full-time technical staff of two, who worked with volunteer steering committees to draft the standards. Small steering committees chaired by a Board member and made up of volunteers around the world prepared the initial drafts. The IASC's objective was to issue "basic" standards, called International Accounting Standards (IAS), which, it was hoped, would lead to a harmonization of accounting standards worldwide. The Board elected Henry Benson as chairman at its first meeting.

The national accounting bodies signed the IASC Agreement and Constitution, affirming that they would use their "best endeavours" to promote the use of the IASC standards in their countries (CZ 2007, 52–53, 500–503). A three-quarters majority was required to approve exposure drafts and final standards. Because the members from a number of the countries defended the propriety of the accounting practices used in their own countries, and also because some country delegations

[3] The term "standard setting" entered the active accounting vocabulary in 1972, with the report of the Study Group on Establishment of Accounting Principles (The Wheat Study 1972) in the United States, whose title was *Establishing Financial Accounting Standards*. The Study Group recommended formation of the Financial Accounting Standards Board, which began operation on July 1, 1973. To be sure, the ICAEW, together with other bodies, had launched the Accounting Standards Steering Committee in 1969/70, yet this earlier use of "standards" apparently did not influence the thinking of the Wheat Study Group (letter from David Solomons, a key member of the Wheat Study Group, to the author, dated February 12, 1981).

preferred the flexibility of having optional accounting treatments or methods, quite a few standards were issued with free choices.[4] The vote on each exposure draft and standard was not reported, and no dissenting views were published. The technical staff frequently consulted the U.S. and U.K. standards, among others, in the early drafting.

Members' employers covered some travel costs, but the sponsoring national accounting bodies shouldered the bulk of the financial burden. The rent and related costs of the head office in London were borne by the ICAEW. Within a year, accounting bodies in other countries began signing on as associate members, subscribing to the commitment that they too would use their "best endeavours" to promote the acceptance of the Board's standards in their countries and also agreeing to contribute toward the IASC's costs (CZ 2007, 43–67).

The Board's meetings were probably a trial for some of the delegations. Because the deliberations were in English (of varying national accents), the members from France, Germany, Japan, and the Netherlands were obliged to discuss technical accounting issues in a second language. With more than 25 Board members, plus staff, sitting around a large table, the understanding and communication of views would not have been easy for all of the participants.

From the outset, the European Commission, the administrative wing of the EEC, paid scant attention to the IASC. It perhaps believed that a private-sector body would attend only to the self-interests of its members, not the public interest which a government agency such as the Commission purported to serve. The FASB, for its part, also accorded the IASC little attention and focused instead on the improvement of U.S. GAAP. As will be seen, these postures changed by the end of the 1980s.

IV. SURPRISE SUPPORT FROM THE SEC IN 1975

The SEC had been following international developments in accounting with great interest and was encouraged by the work of the AISG. In May 1972, SEC Chairman William J. Casey said, "Perhaps [the AISG] is a beginning in the formidable task of achieving some acceptable level of accounting uniformity on an international basis" (Casey 1972). A month later, Casey appointed John C. (Sandy) Burton as the SEC Chief Accountant. In September 1973, a few months after the IASC began operations, SEC Chairman Ray Garrett, Jr. said that Burton was working with the AICPA "and various international accounting groups to resolve the important differences in financial reporting around the world" (Garrett 1973).

The SEC then proceeded to give the fledgling IASC an unexpected vote of support. The IASC's first three standards dealt with the disclosure of accounting policies, inventories, and consolidated financial statements. In December 1974, the IASC issued E3, an exposure draft of a standard on consolidated financial statements, which implied that the financial statements of dissimilar subsidiaries, such as the finance or insurance subsidiaries of industrial parent companies, should be included in the consolidated financial statements. This proposal ran counter to U.S. GAAP, which excluded such subsidiaries from the consolidation, based on Accounting Research Bulletin No. 51, issued in 1959. Sandy Burton preferred the IASC's approach, and on June 10, 1975, he wrote to the AICPA, the IASC's sponsor in the United States, on behalf of the Commission:

[4] Some prominent examples were: IAS 2 on inventories allowed the FIFO, weighted average, LIFO, and base stock methods; IAS 4 on depreciation did not rule out any method; IAS 12 on taxes allowed full deferral and partial deferral, as well as the deferral and liability methods; IAS 16 on property, plant, and equipment allowed the carrying amount to be at either historical cost or a revaluation; and IAS 23 on borrowing costs allowed a policy of either capitalizing or not capitalizing such costs.

> The principles set forth [in E3] are not inconsistent with generally accepted accounting principles in this country and do reflect what we believe to be preferable accounting practice. . . . If the International Accounting Standards Committee issues a final statement embodying these principles and if no contrary statement has been issued by the Financial Accounting Standards Board, the Commission will propose for comment amendments to its Regulation S-X which will conform its consolidation rules to those set forth in the statement.

At that time, the FASB had no item on its agenda to deal with consolidated financial statements.

Upon learning of Burton's letter, Marshall S. Armstrong, the FASB chairman, protested to SEC Chairman Garrett, saying that he was "greatly concerned about the consequences of the action proposed in that letter. . . . If carried out, the proposed action could seriously undermine the effectiveness of the Board as a significant factor in the improvement of financial reporting." In fact, in Accounting Series Release No. 150, issued in December 1973, the SEC had stated that the SEC looked to the leadership of the FASB in setting accounting standards (SEC 1973). The FEI's president, Charles C. Hornbostel, similarly objected, contending that Burton's letter "fails to comprehend the fact that the IASC is an unsanctioned body with little general acceptance by its constituency." Henry Benson learned of the FEI letter, and he wrote to Garrett, with copies to Armstrong and Hornbostel, that the IASC's Agreement and Constitution was "signed by and on behalf of sixteen leading professional accountancy bodies of the world." Garrett responded, "we believe that there is enough work for everybody and that efforts by both bodies [the IASC and the FASB] can be combined to the benefit of world capital markets in general and U.S. shareholders in particular without jeopardizing the authority of either body." In effect, this meant that the SEC did not regard the FASB as the *only* body to which the SEC would look for leadership in setting accounting standards. The SEC had made clear that it supported the movement toward International Accounting Standards and viewed the progress of the IASC positively.

In the end, the IASC modified its final standard in June 1976 to allow the exclusion of dissimilar subsidiaries from the consolidation, and the tension between the FASB and the SEC promptly subsided (CZ 2007, 157–160). A reason given for the modification is telling. Joseph P. Cummings, deputy senior partner of Peat, Marwick, Mitchell & Co. and a member of the U.S. delegation to the IASC, had chaired the steering committee for E3. Even though he fervently believed that there was no logic in excluding dissimilar subsidiaries, once the IASC had heard U.S. and U.K. objections to E3 because it contravened GAAP in their countries, he said, "we learned a lesson." The IASC, he said, "will get off the ground, we'll accomplish something, if we keep the standards relatively basic and if they don't go beyond the policies and principles that have been established in the more sophisticated markets around the world" (Cummings 1976, 5–6). Cummings, who succeeded Benson as the IASC chairman in July 1976, added prophetically:

> I don't know what we'll do if we have a violent difference between the U.K. and the U.S. and some of the other common market countries with respect to an issue. Somebody's ox is going to be gored, and that day will come, there's just no question about that. When it does, we'll have the real test of survival. (Cummings 1976, 6)

V. IASC'S RECORD AND IMPACT FROM 1973 TO 1987

The IASC's first standard on disclosure of accounting policies appeared in January 1975 and was met with fanfare around the world. Between 1975 and 1987 the IASC issued 25 more standards, including one on reflecting the effects of changing prices, which superseded an earlier standard (CZ 2007, Chap. 5). The apparent impact of the IASC's standards varied considerably from country to country. With few exceptions, the countries represented on the Board did not

modify their own standards to reflect the contents of the IASC's standards. There were two reasons for this behavior. The Anglo-American countries represented on the Board generally believed that their standards were superior to IAS. Most of the other countries with delegations on the Board may well have believed that IAS did not fit the taxation-based accounting model they were using.

The standard-setting committee of the Canadian Institute of Chartered Accountants (CICA), which was the most enthusiastic sponsoring body during the Board's 27 years, did consult some of the IASC standards, particularly IAS 18 on revenue recognition, when revising its own standards. In the Netherlands, the Nederlands Instituut van Registeraccountants proposed a process by which it could "accept" certain IAS for required use, but, in the end, no such IAS were ever accepted (CZ 2007, 165–166, 172–174).

"Best endeavours" was interpreted differently in different countries, and most country delegations did not include a representative of the national standard setter even if there were one in the country. The sponsoring accounting body (or bodies) might have had only a limited degree of influence, if any, on their country's accounting practice.

In countries where the IASC's associate member bodies were located, standard setters sometimes sanctioned the use of its standards. Several Asian countries and Hong Kong began patterning some of their standards on IAS. The New Zealand standard setter adopted IAS 2, on inventories, *verbatim* as the country's standard.

In the 1980s, a number of major companies demonstrated solidarity with the IASC. Three U.S. multinationals—General Electric, Exxon, and FMC Corporation—affirmed in their annual reports that their financial statements were, in most respects, consistent with International Accounting Standards. In Canada, at the behest of the Toronto Stock Exchange, following encouragement by the CICA, approximately 100 listed companies affirmed in their annual report that their financial statements were consistent with the IASC's standards. At that time, IAS were compatible in almost all respects with U.S. and Canadian GAAPs. Hence, an affirmation of compliance hardly imposed any real costs on a company. In 1985 in Japan, Sasebo Heavy Industries Co., a major shipbuilding and marine engineering company, affirmed in its voluntary English annual report that its consolidated statements conformed to IAS. Indeed, in 1979, the Tokyo Stock Exchange had said it would henceforth allow foreign companies to prepare their financial statements using IAS instead of Japanese GAAP. South African Breweries affirmed, beginning in 1984, that its principal accounting policies "conform in all material respects" to IAS (CZ 2007, Chap. 6).

The number of delegations on the Board gradually increased to 14, with the addition of South Africa, Nigeria, Italy, Taiwan, and a delegation of financial analysts. Some, such as South Africa and the financial analysts, became permanent delegations and remained on the Board until 2000. In 1995, South Africa began including a representative from Zimbabwe in its delegation in order to promote membership from developing countries. Apart from South Africa and the financial analysts, the others (Nigeria, Italy, and Taiwan) were rotating delegations that served on the Board for defined terms (CZ 2007, 71–73, 506–512). By 1987, there were more than 40 members of delegations and staff sitting around an even larger table, a number of whom continued to struggle with English.[5]

The IASC periodically faced challenges from other bodies. During the 1970s and 1980s, the United Nations and the Organisation for Economic Co-operation and Development, which had begun to interest themselves in financial reporting by multinational enterprise, questioned the IASC's primacy in setting international accounting standards. Views were expressed within both bodies that the IASC lacked legitimacy because it was a creature of the accounting profession, with

[5] Some members of the Japanese delegation and, later, the Korean delegation, were most affected by the language issue.

its own narrow self-interests. The International Federation of Accountants (IFAC), which was founded in 1977, tried on two occasions during the 1980s to bring the IASC under its wing via a merger, but the IASC successfully staved off both of these attempts to remain independent. Chairman Hans Burggraaff played a leadership role when the first such attempt occurred, in the early 1980s (CZ 2007, Chap. 7). Just as today, controversy existed over who should control the international standard setter.

Since 1973, the IASC's administrative and technical staff was headed by a succession of four secretaries who were seconded (i.e., loaned by their employers) for two-year terms each. The last of these was Geoffrey Mitchell, who was seconded as secretary and then became the first secretary-general, once this new position was created in 1984 and the title of secretary was dropped.[6] In 1985, David Cairns became the secretary-general. He served admirably in that position until 1994. The technical staff continued to be small in number, as the drafting of the standards was largely parceled out to steering committees (CZ 2007, 74–77).

VI. 1987–2000: DEVELOPMENTS AT THE IASC AND BEYOND

The Impact of IOSCO on the IASC

The International Organization of Securities Commissions (IOSCO) is a confederation of securities market regulators. IOSCO's office, originally in Montréal, was moved to Madrid in 2000/01. Founded as an international body in 1983, IOSCO was largely unknown until 1987, when both the SEC and France's Commission des Opérations de Bourse (COB), its stock exchange regulator, became active members and thus enhanced the importance of the body in the eyes of regulators around the world. For its part, the SEC hoped that IOSCO would persuade regulators to take action on insider trading as well as on the variable quality of worldwide accounting and auditing practices. Since 1987, the SEC has been the most influential voice within IOSCO. Indeed, beginning in 1990, when IOSCO created a working party (now called a standing committee) on multinational disclosure and accounting, the latter has always been chaired by a senior staff member of the SEC, from either the Division of Corporation Finance or the Office of the Chief Accountant. Furthermore, an SEC Commissioner has always been a member, and once chairman, of IOSCO's powerful Technical Committee, composed of representatives of the 13 largest capital markets in the world.

In 1987, when leaders of the IASC were becoming impatient with its lack of greater impact in the developed world, IOSCO approached the IASC with an enticing proposal that, if the Board were to make significant improvements in its standards, eventually IOSCO would consider endorsing them for use by its regulator members. The IASC's leaders dared to hope that, one day, an endorsement of its standards by IOSCO might prompt the SEC to drop its required reconciliation requirement for foreign issuers using IAS.

IOSCO's call for the following revisions in IASC standards could well have originated with the SEC itself (IOSCO 1988, 8):

Eliminate accounting alternatives
Ensure that they are sufficiently detailed and complete
Ensure that they contain adequate disclosure requirements

The IASC then named a blue-ribbon "Comparability" steering committee, chaired by Ralph E. Walters and composed solely of Board members, to propose reductions or eliminations of options, that is, free choices, in the IASC's standards. The committee held a series of "fast track"

[6] The secretary, and then the secretary-general, was the IASC's chief executive.

meetings, and three representatives of IOSCO—the chief accountants of the SEC, the COB, and the Ontario Securities Commission—attended as observers and participated actively in the discussions. The result of these deliberations and with the Board's eventual approval was the IASC's *Statement of Intent: Comparability of Financial Statements*, issued in July 1990, which marked numerous accounting alternatives for deletion in more than a dozen standards. One of the agreed deletions was the use of LIFO as an acceptable inventory method. Then the Board set up an "Improvements" steering committee, chaired by Paul G. Cherry, to propose revisions in ten of its standards to the satisfaction of IOSCO. The aim was not only to reduce the number of options in line with the *Comparability* report, but also to assure that the revised standards were sufficiently detailed and complete and that they contained adequate disclosure requirements. This was a daunting task for a committee of part-timers. Nonetheless, they completed the task, which included securing the necessary approvals from the full Board, and by the end of 1993 the ten revised standards were submitted to IOSCO for its consideration. The leadership during Board meetings of successive IASC Chairmen Arthur R. Wyatt and Eiichi Shiratori was critical to success of the project. The committee suffered one setback. Even though its recommended deletion of LIFO was supported by the U.S. delegation, the move was defeated because four other delegations (Germany, Italy, Japan, and Korea) voted to support its continuation, thus preventing a three-quarters majority to carry the motion for its elimination. In those four countries, LIFO was acceptable for income tax purposes, and financial reporting in those countries was linked to taxation. It may have been that industry lobbied their delegations not to eliminate LIFO from financial reporting.

IOSCO's reaction to the Board's improved standards was a keen disappointment to Chairman Shiratori. IOSCO found most of the ten standards to be acceptable but wanted further improvements in the others. And it wanted to see standards on interim reporting, intangible assets, earnings per share, employee benefits, most financial instruments, and recognition and measurement issues for discontinued operations. The Board, chastened by this reversal, agreed with IOSCO to supply a set of two dozen "core" standards, suitably improved and complete, by 1999. This was a tall order for a part-time body, albeit with a gradually growing research staff (up to a half-dozen) that was augmented by loans of staff from the CICA and other sources during the 1990s.[7] Sir Bryan Carsberg succeeded David Cairns as secretary-general in 1995, and Michael Sharpe, of Australia, became the IASC chairman in 1996, and both proved to be strong leaders at a critical time during which the Board worked at a frenetic pace to complete its core standards project on time (CZ 2007, 215, 233–237, 269–286, 293–328).[8]

Evolution in the Delegations to the Board

Perhaps in part because of the SEC's enhanced interest in the work of the IASC, via its active participation in IOSCO, the FASB accepted the IASC's invitation in 1988 to send a non-voting guest, and then observer, to Board meetings: successively Raymond C. Lauver, James J. Leisenring, and Anthony T. Cope. Following years of indifference toward the IASC, the FASB, under Chairman Dennis R. Beresford, began to take an active interest in its work. Similarly, prior to the late 1980s, the European Commission had ignored the IASC's standards. But in 1990, with

[7] The IASC's budget was comparatively modest. A comparison of the IASC's total expenditures for 1995 with those of the FASB and the U.K. Accounting Standards Board (ASB) may be instructive: £1,259,000 for the IASC versus £9,834,000 for the FASB, and £2,247,000 for the ASB. One must take into consideration the fact that the IASC budget, unlike the budgets of the other two boards, had to support international travel: in the case of the IASC, for one of the three members of each delegation to the Board (CZ 2007, 239).

[8] The chairman, in most instances a partner in an audit firm, was the IASC's leader who chaired the Board meetings. The chairmen normally served two-and-one-half-year terms.

Karel Van Hulle replacing the previous head of the unit that dealt with accounting issues, the Commission accepted the IASC's entreaty to begin attending Board meetings as a non-voting observer.

IOSCO began sending an observer delegation to Board meetings in 1996, always including at least one SEC staff member. In 1997, an observer delegation from the Chinese Institute of Certified Public Accountants began attending Board meetings (CZ 2007, 228–230). The evident progress in the Board's work and the attention it was receiving from IOSCO was beginning to attract interest in many quarters. The technical staff also became stronger, with Liesel Knorr and James S. Saloman appointed as successive Technical Directors in 1994 and 1999, respectively.

The number of Board delegations rose from 14 to 16 by 1996. Korea and Jordan, succeeding Nigeria and Taiwan, rotated on and off. In the 1990s, delegations from the Nordic Federation of Public Accountants, from India (subsequently joint with Sri Lanka), and Malaysia, and from the Federation of Swiss Industrial Holding Companies, as well as a financial executives delegation, succeeded the delegations from Italy, Korea, and Jordan, and all remained on the Board until 2000 (CZ 2007, 220–225, 506–512). Thus, by 1997, the Board was meeting around a much larger table, with an attendance of more than 45 members, plus staff and numerous observers, totaling between 60 and 70 (Kirsch 2006, 370–373). Because of the need to discuss and debate many controversial drafts of new and revised standards that were to be submitted to IOSCO by 1999, the Board held an exhausting round of nine meetings for a total of 45 days in 1997 and 1998 (CZ 2007, 213–237). It had for some time become evident that such a large part-time body thus constituted was difficult to justify as an efficacious standard setter.

Rise of the G4+1

In 1993–1994, four Anglo-American standard setters—from the U.K., U.S., Canada, and Australia—began meeting quarterly with their staffs to crystallize their thinking on issues they expected to come before the IASC. The group came to be known as the G4+1, the 1 being a representative, usually the secretary-general, of the IASC, who attended as an observer. The four standard setters had similar conceptual frameworks and accounting cultures, and it was much easier for them to exchange views among just themselves than in the IASC Board meetings, with many delegations from countries having very different accounting historical orientations.[9] From 1994 to 2000, the G4+1 published 12 papers on the topics they had been discussing: hedge accounting, provisions, business combinations, leases, and share-based payment, among others. In 1996, New Zealand's standard setter joined as a fifth member of the G4. There was anxiety within the IASC Board that the G4+1 was an attempt by the Anglo countries' standard setters to steer the IASC's deliberations toward their own solutions and that they might harbor an ambition to compete with the IASC to become the world standard setter (CZ 2007, 443–446). This latter possibility was not beyond the realm of imagination, because the five standard setters were well-funded and well-staffed, and two of them, the FASB and the U.K. Accounting Standards Board, were located in the world's two largest capital markets. Sir David Tweedie, from the U.K., James Leisenring, from the U.S., and Kenneth H. Spencer, from Australia, were successive chairmen of the G4+1, and, as will be seen, all three were to become key figures in the IASB's organization beginning in 2000. Patricia L. O'Malley, from Canada, also participated in G4+1 meetings, and she was to become a member of the IASB in 2001.

[9] By the 1990s, it was more commonplace for members of national standard-setting bodies to be included in the delegations to the IASC Board. Most of the members of the G4+1 were either members of delegations or observers at Board meetings.

The SEC Announces the Attributes it Seeks in the IASC's Standards

In 1996, the SEC decided to make its first public pronouncement (that is, not through the medium of IOSCO) on the attributes that the IASC standards must possess if they were to be acceptable for preparing financial statements in cross-border offerings. In a press release dated April 11, 1996, the SEC said that "three key elements" need to be reflected in the standards:

- The standards must include a core set of accounting pronouncements that constitutes a comprehensive, generally accepted basis of accounting;
- The standards must be of high quality—they must result in comparability and transparency, and they must provide for full disclosure; and
- The standards must be rigorously interpreted and applied. (CZ 2007, 331–335)

This was the first use of the term "high quality" in discussions of standards and the standard-setting process, a term that has been widely and frequently invoked since then. The SEC's aim was to make known what general attributes it would be looking for when participating in IOSCO's assessment of the IASC's core standards.

In 1997, at the behest of Congress, the SEC issued a report to Congress on progress in the development of IAS and on the outlook for their possible future use by foreign private issuers in offerings and filings in U.S. capital markets (CZ 2007, 335–338).

Europe Begins to View Accounting in Terms of the Capital Market, and Warms to the IASC

In April 1996, the IASC suddenly accelerated its target date for submitting its core standards to IOSCO from 1999 to March 1998. What factors prompted the IASC to make this change in an already tight schedule?

Important developments were occurring on the European continent, especially in Germany, which tilted Europe more toward the need for accounting standards attuned to the needs of capital market investors. Until then, Germany, France, and some other countries on the continent were still wrapped in the tradition of an accounting model shaped largely by the legal constraints of taxation and the determination of the dividend to be paid to shareholders. The pervasive principle of prudence, or conservatism, was an unquestioned tenet. But there were changes occurring in the financial markets and institutions that challenged this reality.

Traditionally, so-called universal or house banks sat on the supervisory boards of German multinationals. They had an equity interest in the company, and the banks stood ready to provide the necessary loan financing. Hence, the companies did not have to rely, other than in a minor way, on the equity market for finance. But with the reunification of West and East Germany in 1990, the major German banks were under pressure to lend to companies in the former East Germany to help overcome the great disparities in development between the east and the west. Also, at the beginning of the 1990s, the major German banks were looking to diversify into investment banking, and some multinationals came to outgrow bank financing. The effect of these developments was that bank financing could not as easily be relied upon as before.

In 1993, the solid wall of German multinational companies that refused to list on the New York Stock Exchange and therefore be required to prepare a further set of consolidated statements in order to reconcile their earnings and shareholders' equity to U.S. GAAP, as mandated by the SEC, was breached, when Daimler-Benz, Europe's largest company, announced a New York listing. Its reconciliation for 1993 showed that its consolidated profit of DM0.6 billion under German GAAP converted to a loss of DM1.8 billion under U.S. GAAP, apparently because the company had released "silent reserves" that had the effect of bolstering its earnings. As Berger (2010, 16) has written, "Indisputably, the US GAAP results better reflected the economic situation. German GAAP lost some of its acceptance as an accounting standard." Daimler's fellow multinationals

came under pressure to abandon the discredited German GAAP and instead adopt U.S. GAAP or IAS, and a number did (as will be seen below). German companies were looking for regulatory relief from having to prepare their consolidated financial statements by the use of German GAAP. The federal government responded by approving the Kapitalaufnameerleichterungsgesetz (Capital Raising Relief Law) in 1998 to enable German companies to prepare their consolidated financial statements in accordance with internationally recognized accounting standards, which meant U.S. GAAP or IAS (Berger 2010, 17).

Daimler proceeded to report its German GAAP-U.S. GAAP reconciliation in 1994 and 1995, until it discovered in 1996 that German law regulated only the filing of annual financial statements with the registrar (publication in the federal gazette), not the annual report sent to shareholders. For that year, Daimler issued an annual report to shareholders with its consolidated financial statements expressed in U.S. GAAP throughout.

In addition, the recently privatized Deutsche Telekom scheduled an Initial Public Offering (IPO) of its equity securities for 1996, one-quarter of which was intended for the United States. The US$13 billion IPO was the largest ever in Europe. When it was successfully carried out in November 1996, some two million of the purchasers were German households. To the surprise of many in the financial markets, a retail market for equity was found to exist in Germany.

In early 1997, the German stock exchange formed the Neuer Markt (New Market) for young, high-tech enterprise and required those companies, most of which were German, to use U.S. GAAP or IAS, but not German GAAP.

The European Commission was, of course, closely following these developments, and it soon warmed to IASC standards as a possible alternative to the Company Law Directives on accounting, which were focused on company law reform and not on reporting useful information to capital market investors. Gradually, the issue of setting accounting rules in a number of continental countries began to engage not only the Ministry of Justice, which was responsible for company law, but also the Ministry of Finance, which was concerned with the markets. More broadly, interest began to heighten in the European Union for creating a capital market that could compete on a plane with capital markets elsewhere in the world (CZ 2007, 314–316, 328–331, 411–414, 418–426). For all of these reasons, the IASC's leadership believed that the Board had to have its core standards readied for IOSCO even earlier than they had planned.

These fundamental changes in accounting and financial culture, coming as quickly as they did, were not easily digested by the members of the German delegation to the IASC Board, who were straining to catch up with the new accounting reality in their country. Delegations from other continental European countries may well have confronted a similar challenge (CZ 2007 227–228).

Board Completes the Core Standards

The Board and its staff worked tirelessly from 1994 to 1998 to complete work on the remaining core standards. Finally, in December 1998, the Board approved IAS 39 on financial instruments, this most controversial of standards, which was based almost totally on U.S. GAAP. It was meant to be only an interim solution. The Board had been trying since 1989 to devise its own fundamental approach to the standard, but in the end, with the 1998 target date looming, it decided instead to look to U.S. GAAP for the answer. As it was, the Board missed its March 1998 target date by nine months, and with IAS 39, the full set of core standards was complete and was promptly transmitted to IOSCO, where its working party on multinational disclosure and accounting began the detailed process of judging their quality (CZ 2007, 340–341, Chap. 11).

More Multinationals Begin Attending to IAS

During the period from 1987 to 2000, a number of European multinationals began to adopt IAS in preference to their national GAAP, perhaps with deviations, in their consolidated financial statements. Among them were the Swiss companies Nestlé, Holderbank/Holcim, Roche, Ciba-Geigy/Novartis, and UBS and the German companies Schering, Heidelberger Zement, Bayer, Hoechst, and Deutsche Bank. In the United States, several major corporations began affirming that their financial statements conformed to IAS: CPC International, Salomon Inc., and Microsoft. Moreover, Salomon's and Microsoft's audit firms, Arthur Andersen & Co. and Deloitte & Touche, respectively, said in their report that the company's financial statements were fairly presented in conformity with both U.S. GAAP and IAS, perhaps the only such instances in which U.S. Big 6 (or Big 8) firms made such an affirmation prior to 2000. A similar such affirmation was made by a small audit firm in the annual reports of the International Federation of Accountants (CZ 2007, 156–157, 330).

IASC Restructures Itself: 1997–2000

The IASC leadership had reason to believe that IOSCO would be reluctant to endorse its standards unless it were to restructure itself so that regulators, including especially the SEC, could have confidence that the Board, going forward, would be a high quality standard setter. A part-time body with a relatively small staff, with volunteer steering committees in charge of drafting the standards, which meets in plenum with some 60 to 70 people sitting around an immense table does not inspire confidence. The IASC thereupon set up a Strategy Working Party, composed of the Board's chairman and vice-chairman, another Board member (David Tweedie), and leading figures representing the interests of the accounting profession, the financial community, the company sector, and regulators. It was chaired by Edward J. Waitzer, a lawyer and the immediate past chairman of the Ontario Securities Commission (OSC).[10] The working party was charged with proposing a more effective standard-setting body.

After more than 12 months of frequent meetings at which it debated proposals for different levels of involvement by national accounting bodies and national standard setters in various versions of a new standard-setting structure, the working party seemed to be almost at an impasse between contending approaches. Then, in September 1999, the SEC's chief accountant, Lynn E. Turner, sent a letter to the working party, making known the SEC's insistence that the restructured body, in order to possess "authority and legitimacy," had to be relatively small, independent, full-time, assisted by a large research staff, and with a robust and open due process. The predominant criterion for Board membership, the SEC said, was technical expertise, not geographical origin. Without saying so in the letter, the SEC argued for a body similar to the FASB.

Voices on the European continent, including especially that of the European Commission, favored a larger body with at least some part-timers and with geographical representation from the countries committed to applying the standards.

At the IASC Board's meeting in Venice in November 1999, when it was determined to agree on a restructuring plan, the Board, though still divided over which was the best way, reluctantly decided, yet in a unanimous vote, to approve a restructuring along the lines of the SEC's demands.

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[10] The SEC has long regarded the OSC as a regulator that shares its values and beliefs on accounting and disclosure matters. IOSCO's working party on multinational disclosure and accounting, as already noted, has always been chaired by a senior SEC staff person, and it has always suited the chairman that its subcommittee on accounting and auditing be chaired by the OSC chief accountant or his or her deputy. Thus, to the extent that the SEC might have been consulted about the selection of the chairman of the Strategy Working Party, the choice of the immediate past chairman of the OSC would have been welcome.

To the Board, it was unthinkable for a global standard setter not to have the support of the country whose capital market was the largest in the world.

The working party then proceeded to fill in the details of the new design. A 19-member board of trustees "from diverse geographic and functional backgrounds"[11] would oversee the restructured Board. The trustees would (1) raise the funds; (2) appoint the members of the Board, an interpretations committee (carried over from one that had been set up by the IASC in 1997),[12] and a Standards Advisory Council; and (3) monitor the Board's effectiveness. The "foremost qualification for Board membership would be technical expertise" and "selection of Board Members would not be based on geographical representation." The Board would have 12 full-time members and two part-time members. Seven of the 14 Board members were to have formal liaison responsibilities with national standard setters, "which would assist the IASC in achieving the convergence of accounting standards around high quality solutions." The working party stated that "A high quality technical staff of fifteen is considered to be a reasonable starting number." The Board would approve its decisions on technical matters by a simple majority. The secretary-general supervised the drawing up of a Constitution based on the final report of the working party, and the IASC Board approved it unanimously at its meeting in March 2000. In May 2000, all of the IASC's member bodies—143 professional accounting bodies in 104 countries—approved the restructuring, including the new Constitution, making it final. By this decision, the worldwide accounting profession surrendered their "ownership" of the IASC.[13]

The working party provided that a nominating committee of five to eight "outstanding individuals from diverse geographic and functional backgrounds" should select the initial trustees. The committee might "include senior members of regulatory bodies, major international organisations, major global corporations, and the accounting profession" (para. 21). The IASB Board approved a seven-member nominations committee, which included SEC Chairman Arthur Levitt, whom the committee selected to be its chairman. The other members were the president of the World Bank, the chairmen of the French COB, the U.K. Financial Services Authority, and the Hong Kong Securities and Futures Commission, the chief executive of Deloitte Touche Tohmatsu, and the deputy chairman of the German Accounting Standards Board.[14] The committee, and especially Levitt, believed that the trustees required a renowned international figure to serve as chairman of the trustees, and they succeeded in recruiting Paul A. Volcker, the former chairman of the U.S. Federal Reserve Board, to the position. The remaining 18 trustees were distinguished individuals from around the world. The trustees held their first meeting in June 2000, and Volcker selected Kenneth Spencer from Australia, one of the three qualified accountants on the board, to head the trustees' nominating committee. Spencer had served as a chairman of the G4+1 and had twice been a member of the Australian delegation to the IASC Board.

From 1973 to 2000, more than 200 highly able individuals, from many walks of professional life, had served in 22 delegations to the IASC Board, assisted by a talented staff and scores of dedicated volunteers from around the world who drafted the preliminary documents as members of steering committees. It was truly unprecedented as a worldwide collaboration among accounting professionals. During this period, the IASC held 87 meetings in 37 cities around the world and

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[11] The quotations in this paragraph are from paragraphs 19(a), (b), and 64 from the working party's report, *Recommendations on Shaping IASC for the Future* (1999). The reference to paragraph 21 in the next paragraph is also from this source.

[12] The IASC's Standing Interpretations Committee was renamed the International Financial Reporting Interpretations Committee (IFRIC) in 2002 and was renamed the IFRS Interpretations Committee in 2010.

[13] A similar surrender of accounting-profession ownership of the national standard-setting body occurred in the U.S. in 1973, when the FASB succeeded the Accounting Principles Board, and in the U.K. in 1990, when the Accounting Standards Board succeeded the Accounting Standards Committee.

[14] The German Accounting Standards Board had been established in 1998.

Exhibit 1

International Accounting Standards Board
(original membership)

Chairman: Sir David Tweedie—former chairman of Accounting Standards Board (U.K.)

Vice chairman: Thomas E. Jones—former executive vice-president, Citigroup (U.S.)

Mary E. Barth (part-time)—accounting professor at Stanford University (U.S.)

Hans-Georg Bruns (liaison to German standard setter)—former chief accounting officer, DaimlerChrysler (Germany)

Anthony T. Cope—former member of the Financial Accounting Standards Board (U.S.)

Robert P. Garnett—former executive vice-president of finance, Anglo American plc (South Africa)

Gilbert Gélard (liaison to French standard setter)—former partner of KPMG, Paris (France)

Robert H. Herz (part-time)—technical partner in PricewaterhouseCoopers, New York (U.S.)

James J. Leisenring (liaison to the FASB)—former vice-chairman of the FASB (U.S.)

Warren McGregor (liaison to Australian and New Zealand standard setters)—former executive director of the Australian Accounting Research Foundation (Australia)

Patricia O'Malley (liaison to the Canadian standard setter)—former full-time chairman of the Accounting Standards Board and previously technical partner of KPMG, Toronto (Canada)

Harry K. Schmid—retired senior vice-president, Nestlé (Switzerland)

Geoffrey Whittington (liaison to the U.K. standard setter)—retired accounting professor at Cambridge University and former member of Accounting Standards Board (U.K.)

Tatsumi Yamada (liaison to the Japanese standard setter)—former partner of ChuoAoyama Audit Corporation (member of PwC), Tokyo (Japan)

issued a conceptual framework, 41 standards, and 24 interpretations. It also published a periodical, *IASC Insight* (CZ 2007 Chap. 13, 238–240, 504–526).

VII. ORGANIZATION OF IASB IN 2000–2001

The first member of the restructured Board to be chosen was its chairman, David Tweedie, who had been serving since 1990 as the full-time chairman of the U.K. Accounting Standards Board, as a member of the U.K. delegation to the IASC Board since 1995, and was the originator and first chairman of the G4+1. The trustees chose the other 13 members after an extensive search for candidates and the conduct of interviews. They set no formal country or regional quotas for Board membership. The resulting geographical composition was: five from the United States, two from the U.K., and one each from Australia, Canada, France, Germany, Japan, South Africa, and Switzerland. It was a Board composed of highly accomplished professionals. (See Exhibit 1 for the list of the initial Board members.) The U.S. contingent on the new IASC Board could count on five of the 14 votes, if they were all to agree on a position, versus only one of 16 votes on the old Board. The heavy representation from Anglo-American countries was duly noted, and not with favor, on the European continent. Nine of the 14 votes, one more than a simple majority, would be cast by the five from the United States,[15] the two Britons, the Canadian, and the Australian. The initial Board

[15] Of the five from the United States, two, Cope and Jones, were British-born, but each, respectively, had spent most or much of his career in the U.S.

was composed heavily of "techies"[16] and former national standard setters. Jim Leisenring and Tony Cope had been serving on the FASB, David Tweedie and Geoffrey Whittington had been the full-time chairman and a part-time member, respectively, of the U.K. Accounting Standards Board, and Tricia O'Malley had been serving as the full-time chairman of Canada's Accounting Standards Board. Warren McGregor had been the long-time director of the research foundation that supported the Australian Accounting Standards Board. Whittington and Mary E. Barth were accounting professors. Hans-Georg Bruns had been the head of accounting for Daimler. Half of the Board members had been audit partners of a Big 5 (or Big 6) firm. Eight of the 14 members had been either delegates or non-voting observers at the old IASC Board. Four members had served on the G4+1. Socialization of the new Board was not all that difficult, because most of the members had already known each other.

The Board membership was to be composed of at least five members from audit firms, three from companies, and three from the user community, and at least one academic. The most difficult group from which to recruit were the users, and two of the three who were classified as users were dubious members of that class. Only one of the three had actually been a professional user in the securities markets for a significant period of time.

The trustees raised the necessary funding from the Big 5 audit firms, companies, financial institutions, and central banks, and the Board, whose name was changed to the International Accounting Standards Board (IASB), held its first official meeting in April 2001. Its standards were now to be known as International Financial Reporting Standards (IFRS). As before, the Board issued discussion papers and exposure drafts, and it soon began holding roundtables on important projects. It followed an elaborate due process.[17]

VIII. 2000: YEAR OF THE REGULATORS

SEC Concept Release

In February 2000, the SEC issued a "blockbuster" concept release on International Accounting Standards (SEC 2000). In the release, which had been drafted by Chief Accountant Lynn Turner and Associate Chief Accountant Mary B. Tokar, the SEC posed 26 searching questions about the quality and robustness of the IASC's standards, the role of the auditor when applying the standards, and the role of regulators in the interpretation and enforcement of the standards. The SEC contemplated that, "while the accounting standards used must be high quality, they also must be supported by an infrastructure that ensures that the standards are rigorously interpreted and applied." The elements in that infrastructure included the following:

- effective, independent, and high quality accounting and auditing standard setters;
- high quality auditing standards;
- audit firms with effective quality controls worldwide;
- profession-wide quality assurance; and
- active regulatory oversight.

This was indeed a daunting list, and there were those who wondered when, if ever, the entire global infrastructure envisioned by the SEC might be put in place. Anyone who believed that the SEC might one day drop its reconciliation requirement for foreign private issuers using IAS, even if

[16] The term "techies" refers to those with a strong technical background in the application and interpretation of accounting standards.
[17] Walton (2009, Chap. 5) provides a discussion of the Board's standard-setting process.

IOSCO were to endorse the IASC's core standards, would have been disconcerted by the demands set forth in this concept release (CZ 2007, 343–347).

IOSCO Endorsement

In May 2000, the Technical Committee of IOSCO, acting on a favorable report from its working party on multinational disclosure and accounting, recommended to its regulator members that they permit multinational enterprises to use the IASC's core standards in financial statements contained in cross-border listings and offerings of securities. Yet it conditioned this advice by allowing regulators to impose three "supplementary treatments" when dealing in their own way with the many "outstanding substantive issues" in the core standards that were enumerated in the report (IOSCO Technical Committee 2000). As synthesized by IOSCO's Presidents' Committee, which ratified the Technical Committee's report, the three supplementary treatments were as follows:

- **reconciliation:** requiring reconciliation of certain items to show the effect of applying a different accounting method, in contrast with the method applied under IASC standards;
- **disclosure:** requiring additional disclosures, either in the presentation of the financial statements or in the footnotes; and
- **interpretation:** specifying use of a particular alternative provided in an IASC standard, or a particular interpretation in cases where the IASC standard is unclear or silent.

These were the very treatments that the SEC already used when reviewing companies' financial statements, and their appearance in the Technical Committee's report seemed to signify that the SEC's required reconciliation for non-U.S. GAAP users would also apply to IAS users. Some therefore regarded IOSCO's endorsement as rather "hollow," yet this act of endorsement certainly served to enhance the IASC's worldwide credentials as a standard setter. The symbolism could not be denied. IOSCO's working party, in its report to the Technical Committee, identified numerous issues in the standards that still required the IASC's attention in its future work program. These were issues that the IASB took up beginning in 2001, when it began improving the standards it inherited from the old IASC (CZ 2007, 341–343).

European Commission Commits to IAS

In June 2000, the most significant regulatory development during the year occurred: the European Commission announced, to the surprise of most, its revised strategy that listed companies in the EU should be required to adopt IAS in their consolidated statements by 2005. The EU's Council of Economic and Finance Ministers promptly endorsed this new strategy in July. The Commission stated that the central objective of this strategy "is that the policy should ensure that securities can be traded on EU and international financial markets on the basis of a single set of financial reporting standards" (*EU Financial Reporting Strategy: The Way Forward* 2000, para. 7).[18] At that time, there were some 6,700 listed companies in the EU's 15 member states, of which 275 claimed to be using the IASC's standards already. Since the mid-1990s, when discussion had begun in earnest in the EU about the need to develop its internal capital market, the issue of comparable accounting practices that would respond to the information needs of investors arose as a major issue. To be sure, the 15 national GAAPs in the EU had become somewhat more alike as a result of the member states' incorporating the Fourth and Seventh Company Law Directives on accounting into their national legislation, but this would not suffice.

[18] The further two quotations in this paragraph are from this source.

American Accounting Association

They were not "investor-oriented financial reporting systems" (para. 14), attuned to the information needs of the capital market. The two options other than the Directives were U.S. GAAP and IAS. U.S. GAAP was out of the question, both because it was an American import and because it was too voluminous and detailed. Moreover, it was formulated by the FASB, and what interest would the FASB have in the views of Europeans when developing its standards? In contrast, the IASC was an avowedly international standard setter based in London and surely would include several European members, following the restructuring. The European Commission observed that, since 1995, "the IASC has undertaken a gradual, but in-depth process of revision of its standards. Already IAS provides a comprehensive and conceptually robust set of standards for financial reporting that should serve the needs of the international business community" (para. 15). This was encouraging support from a body that, only 15 years before, had dismissed the IASC's standards as irrelevant for Europe.

In May 2000, the EU's Council had met in Lisbon, when it took an important political step toward achieving an integrated financial services and capital market in the EU, eventually by 2005. The European Commission's announcement in June 2000, as discussed above, therefore signified the implications of that step for the role of the IASC and its standards in the future development of the EU. This significant revision in the European Commission's strategy was of historic importance for the IASC, shortly to become the IASB. It meant that the new IASB would be assured of a large clientele for its standards, because no other country or countries in the developed world had yet announced a commitment to the IASC's standards. Had the IASB begun its operations in 2001 without such a base of support, how enduring and significant would its influence have been? As will be seen, countries elsewhere in the world took note of the EU's commitment and thus came to regard the IASB's standards as much more consequential than a mere extension of the series of voluntary standards issued by the old IASC (CZ 2007, 430–432).

The European Commission's revised strategy presented it with a procedural dilemma, because there was no precedent in the EU for a private-sector body to establish, in effect, EU law. If EU listed companies were to become obligated to comply with IAS, such a requirement would need to have the force of EU law. Through a procedure known in the EU as "comitology," the European Commission pieced together a process by which the IASB's standards could be endorsed for required use by EU listed companies without the need to place every standard before the European Parliament and the Council for approval (Van Hulle 2008). First, the Commission urged the private sector to establish a committee of accounting experts based in the EU that could provide technical feedback to the IASB Board when developing its standards and interpretations and then could advise the Commission whether the final standard or interpretation was technically sound for required use in the EU. That body, set up in 2001, came to be called the European Financial Reporting Advisory Group (EFRAG), which has evolved into a proactive commentator on accounting standards in Europe (Enevoldsen and Oversberg 2008). EFRAG's Technical Expert Group (TEG) has a dozen voting members, representing a range of professional and geographical backgrounds, who comment on IASB drafts and advise the European Commission on the technical quality of its final standards and interpretations. Second, the Commission created an Accounting Regulatory Committee (ARC) composed of representatives from all of the member state governments. After the Commission receives favorable advice at the technical level from the TEG, it submits the standard or interpretation to the ARC for advice on its "political" acceptability.

Why would one or more member state governments have views on the "political" acceptability of a standard or interpretation? In the course of drafting by the IASB, companies, banks, trade associations, or investor groups may bring concerns to their national government that the standard, if endorsed, would be excessively costly to implement or would create adverse

consequences for the national economy, such as dampening incentives for entrepreneurial activity. In exceptional cases, these concerns may also be expressed to members of the European Parliament. Thus far, complaints to members of the European Parliament have prompted it to delay the endorsement of only one standard, IFRS 8 on operating segments (Roberts 2010, 465–469). The Parliament is empowered to delay or veto an endorsement according to this comitology procedure, but it cannot itself take the initiative to endorse a standard that the European Commission has not submitted for endorsement. The European Commission itself has delayed action on some IASB standards and interpretations, because one or more important EU governments refused to come on board.[19]

The EU announced on June 7, 2002 that the European Parliament and the Council had approved Regulation (EC) No. 1606/2002, known as the IAS Regulation, implementing the European Commission's revised strategy and imposing the obligation on most EU listed companies to begin using endorsed IAS/IFRS by January 1, 2005 (IAS Regulation 2002).[20] Early the next month, Australia's Financial Reporting Council (FRC) announced that it "has formalised its support for the adoption of international accounting standards by 1 January 2005" (Adoption of International Accounting Standards by 2005, 2002). In the FRC's media release, Jeffrey Lucy, the FRC's chairman, stated that "Australia certainly cannot afford to lag Europe in this regard." The world had begun to notice the implementation of the European Commission's revised strategy.

Once an IASB standard or interpretation has been endorsed for required use by EU listed companies, what wording must the company and the auditor use to affirm that the financial statements comply with the endorsed standards? In 2005, the European Commission, in consultation with the ARC, decided that the required wording is to be: "in accordance with International Financial Reporting Standards as adopted by the EU" (*Reference to the Financial Reporting Framework in the EU in Accounting Policies and in the Audit Report and Applicability of Endorsed Standards* 2005). This decision creates a problem for readers who do not know what, if any, deviations there are between EU-endorsed IFRS and IFRS as issued by the IASB. For financial statement readers to be confident that comparability exists among the use of IFRS across countries, they must be apprised of any salient differences between the countries' financial reporting frameworks. How then does a reader in, say, Tokyo, Sydney, or New York of an EU listed company's financial statements, which are accompanied by such a hedged statement of compliance, know whether, and to what degree, the company's financial statements are faithful to the full set of IFRS as issued by the IASB? The EU does not require companies to disclose deviations from IFRS as issued by the IASB.[21] This quandary became a concern to the SEC in 2007, as I will discuss in the next section.

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[19] Notable examples are IFRIC 12 on service concession arrangements issued in November 2006 and IFRS 9 on financial instruments issued in November 2009. IFRIC 12 was finally endorsed more than two years after issuance, once the European Commission had prepared and issued an impact study (http://ec.europa.eu/internal_market/accounting/docs/effect_study_ifric12_en.pdf).

[20] See the European Commission's press release at http://www.iasplus.com/resource/euiasregpr.pdf. The EU's IAS Regulation also applies to the three members of the European Economic Area (Norway, Iceland, and Liechtenstein). A limited number of EU listed companies, mainly those listed in New York, were given an extension to January 1, 2007.

[21] In its communication in which it conveyed the news about the European Commission's decision on the required wording to be used by companies and auditors, the Fédération des Experts Comptables Européens (Federation of European Accountants), known as FEE, "strongly encouraged" companies to provide an explanation in the notes to the financial statements of any differences between their accounting policies and IFRS as issued by the IASB. FEE also recommended that EU listed companies affirm whether they are in compliance with full IFRS (*Reference to the Financial Reporting Framework in the EU in Accounting Policies and in the Audit Report and Applicability of Endorsed Standards* 2005). These recommendations should apply also to the audit report. But the European Commission has not echoed these recommendations. Some EU companies' auditors have, in fact, given this second opinion, on compliance with full IFRS, in their reports (Nobes and Zeff 2008).

American Accounting Association

IX. IASB'S FIRST FIVE YEARS: 2001–2006

Norwalk Agreement

One of the IASB's priorities in 2001–2002 was to begin a process of mutual convergence with the FASB, so that, once their two sets of standards were close to being compatible, the SEC might be ready to drop its required reconciliation for foreign private issuers that use IFRS (Pacter 2005). As had been contemplated by the leadership of the old IASC as far back as 1987, the prospect of the SEC's eventually dropping its reconciliation requirement was uppermost also in the minds of the IASB Board's leadership. For its part, the SEC encouraged both boards to diminish the differences between their standards. When Robert Herz resigned from the IASB in June 2002 to become the FASB chairman, the occasion for cementing this relationship was at hand. In October 2002, following the first formal, joint meeting between the two boards, the IASB and the FASB issued a Memorandum of Understanding (MoU) known as "The Norwalk Agreement," which affirmed their commitment to "make their existing financial reporting standards fully compatible as soon as is practicable." They promised progress on unspecified short-term projects that could be completed in the next few years as well as coordination of their future work programs for longer-term projects.[22] In February 2006, the two boards signed another MoU to chart their future progress on mutually converging a number of major standards.[23] This MoU was updated in 2008 and set a completion goal of 2011,[24] and in 2009 the two boards publicly announced an accelerated pace to complete the MoU projects.[25]

IASB's Agenda of Projects

The IASB Board decided in 2001 on an ambitious agenda of projects, including share-based payment, business combinations, insurance contracts, performance reporting, and improving IAS 39. Another Board priority was to improve the other standards it inherited from the IASC in order to address the many issues raised by IOSCO's working party in its recommendation to the Technical Committee, which led to IOSCO's endorsement in 2000.

Share-based payment was a controversial project because European multinationals did not want to be placed at a competitive disadvantage to companies that did not have to expense stock options under U.S. GAAP (Zeff 2010, 266–267). Despite this controversy, the IASB succeeded in issuing IFRS 2 in February 2004. It required that the expense appear in the income statement, and it was closely patterned on the FASB's exposure draft issued in 1993 (the FASB's preferred solution), which the FASB was unable to incorporate in SFAS 123 in 1995 because of intense political opposition (Zeff 1997). In 2002, shortly after the IASB had begun work on share-based payment, the FASB again took up the issue. Although accounting for employee stock options remained highly contentious in the United States, with members of Congress threatening to thwart the FASB (Zeff 2002, 44–45; Zeff 2010, 272–274), the FASB nonetheless exploited the IASB's precedent and issued SFAS 123R along similar lines as IFRS 2, requiring that stock options be expensed. IFRS 2 was indeed one of the IASB's successes.

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[22] For the text of the Agreement, see http://www.fasb.org/news/memorandum.pdf. Among the short-term projects that were launched in the wake of the Norwalk Agreement were ones on income taxes, a revision of IAS 37 on provisions, IFRS 5 on non-current assets held for sale and discontinued operations, and financial statement presentation.

[23] See http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176156245558.

[24] See http://www.fasb.org/intl/MOU_09-11-08.pdf.

[25] See http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176156535882.

The Controversy over IAS 39

In December 2003 the Board issued the improved standards it inherited from the IASC, including IAS 39 on financial instruments. IAS 39 was intensely controversial, especially among the big French banks, none of which would accept that they could no longer use hedge accounting on significant hedged positions. The IASB had attempted to address some of their concerns, but an additional amendment on macro-hedging was made in the face of known remaining objections by the banks. The big banks, as well as the French government, were incredulous that the IASB would assert its independence regardless of the adverse implications of its standard for the banks. The long tradition in France was that the accounting standard setter, based in the Ministry of Finance, was responsive to issues of business impact and public policy (Scheid and Walton 1992, Chap. 7). In France, the major banks have the ear of the President of the Republic, and in July 2003 President Jacques Chirac made known his view that IAS 39 could have "harmful" consequences for financial stability in Europe (Véron 2007, 36). The view of the French President usually carries weight in the corridors of EU policy-making. Yet the IASB stood its ground on the standard despite this political pressure.

A criticism of IAS 39 was also heard from the European Central Bank (ECB). The Bank objected to IAS 39's "full fair value option" for measuring financial assets and liabilities at fair value. The ECB's main concern was the potential impact on financial stability that such an accounting policy might have, both because of changes in banks' business activities and because of changed public perceptions of the banks' risk profiles. More specifically, it was concerned about the fair-value measurement of liabilities, particularly thinking that an entity in dire financial straits with a credit rating that boosts the interest rate at which it could borrow, could, under the standard, buoy its reported profit by showing an unrealized holding gain on the debt. The Bank felt that this result was incongruous. The IASB was disposed to accommodate the ECB's concern, but it could not issue an amendment quickly enough before the European Commission acted on the full standard. In November 2004 the Commission announced an endorsement with carve-outs of both contested provisions: macro-hedging and the full fair value option. This was an embarrassing episode for the IASB and for the European Commission as well. Yet the carve-outs were believed to affect the financial statements of only some two to three dozen banks. In August 2005, the IASB amended IAS 39 to accommodate the ECB's concern, but the other carve-out remains (see Zeff 2010, 267–269).[26]

EU Companies Adopt IFRS

In 2005, in accordance with plan, the vast majority of the some 8,000 listed companies in an enlarged EU switched from their national GAAP to IFRS in their consolidated financial statements. Without question, cross-border comparability vaulted significantly. In its report on a major study of 65 companies reporting under IFRS, Ernst & Young wrote, "The 2005 implementation of IFRS has been a great success overall, with companies rising to the challenge of introducing fundamental accounting and reporting changes. Nevertheless, we observe that IFRS financial statements currently retain a strong national identity" (Ernst & Young 2006, 6). Accounting cultures run deep, and old habits do not change easily (see Nobes 2011).

Trustees' Constitutional Review in 2005

The very "techie" composition of the Board, as well as the Board's vexed experience with IAS 39, led critics to complain that the Board is too theoretical and does not listen. In 2005, the IASC

[26] For a running account of the stages in this controversy, see the issues of *World Accounting Report* for 2003 and 2004.

Foundation's trustees conducted their five-yearly Constitutional review and made some changes in response to the critics. First, they replaced "technical expertise" as the paramount criterion for Board membership to "professional competence and practical experience." Second, they altered the required majority for approving standards from 8–6, a simple majority, to 9–5, one more than a simple majority.[27] This latter change seems to have had comparatively little impact on the Board's behavior. The former change, however, may have been a factor in the gradual change in the backgrounds represented on the Board. As the initial Board members retired, they were succeeded by members with a less pronounced technical background and also with less previous standard-setting experience. Since 2001, of course, there would have been fewer opportunities to obtain national standard-setting experience, other than at the FASB, the Accounting Standards Board of Japan, and a few other such bodies. By the end of the decade, the Board membership included more genuine users, as well as several ex-regulators in its membership, and few were "techies." Indeed, in July 2011 Hans Hoogervorst, the immediate past chairman of the Dutch securities regulator and who does not have an accounting background, succeeded David Tweedie as IASB chairman.

Evolution of the Technical Staff

The number of technical and research staff at the IASB has grown steadily since 2001 and has become increasingly international, reaching 56 in May 2011: eight from the U.S., seven each from the U.K. and Germany, four each from Australia, Japan, and South Africa, and the remainder from 15 countries in Europe, Africa, Asia, and North America.[28]

X. IASB'S SECOND FIVE YEARS: 2006–2011

During the early part of this period, the SEC twice boosted the standing of IFRS in the U.S. securities market, and the AICPA gave the IASB a vote of confidence. These developments were followed in 2008 by the dark clouds of the economic and financial crisis.

Actions by the SEC and the AICPA

Probably the major outside developments affecting the work of the Board in 2007 were decisions made at the SEC. In April 2005, SEC Chief Accountant Donald T. Nicolaisen had proposed a possible "roadmap" for dropping the reconciliation requirement for foreign private issuers using IFRS (Nicolaisen 2005). Although he espoused only his personal views, this direction apparently had widespread support within the Commission. Among other things, there was pressure from Europe for the SEC finally to commit itself to IFRS. Then, in July 2007, the SEC issued a rule proposal to drop the reconciliation requirement for foreign private issuers adopting "IFRS as published by the IASB," and on November 15, 2007 a unanimous Commission approved the rule, to take effect immediately.[29] The swiftness with which the SEC adopted this rule was a surprise to many, including those at the IASB. There had been a growing belief within the Commission that the reconciliation note to the financial statements had not contained information useful to investors (Walton 2009, 12–13).

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[27] The IASC Foundation trustees were not alone in modifying the required majority to approve standards. In the United States, the FAF Foundation trustees have three times changed the required voting majority for the FASB: from 5–2 to 4–3 in 1977, from 4–3 back to 5–2 in 1990, and back again from 5–2 to 4–3 in 2002.
[28] Communication to the author from Alan Teixeira, dated May 20, 2011.
[29] See http://www.sec.gov/rules/final/2007/33-8879.pdf.

Also in 2007, the SEC issued a concept release to explore the possibility of allowing U.S. issuers to use IFRS in their filings with the Commission.[30] Prior to the issuance of this release, few had believed that the SEC would ever go this far toward the possible use of IFRS by U.S. companies. Then, in August 2008, the SEC unanimously, with enthusiastic support by all of the participating staff offices and divisions, approved a rule proposal containing a roadmap toward eventual required adoption of IFRS by U.S. issuers.[31] These developments in 2007, including the dropping of the reconciliation requirement, and in 2008 were driven by Christopher Cox, the SEC's chairman. However, in the light of the emerging economic and financial crisis in the U.S. economy and political system, the new SEC chairman, Mary L. Schapiro, who succeeded Cox in January 2009, testified in her confirmation hearing that she did not feel bound by the roadmap (New Chairman Appointed 2009).

Since 2009, the SEC's accounting staff has floated suggestions that a process called "condorsement," which is essentially one of gradual convergence toward IFRS to be engineered by the FASB, as a possible course of action (Beswick 2010; *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for the U.S. Issuers: Exploring a Possible Method of Incorporation* 2011). The SEC had promised to signify its position on IFRS by the end of 2011 but is now expected to announce its position in 2012.

The AICPA announced a decision in May 2008 that made the United States the first country in which private companies can adopt IFRS ahead of publicly traded companies. The AICPA's governing council designated the IASB as an accounting body for purposes of setting international financial accounting and reporting principles, thus giving AICPA members the option to conduct audits in line with IFRS as an alternative to U.S. GAAP under Rules 202 and 203 of the Code of Professional Conduct (AICPA Council 2008). Therefore, U.S.-based private companies that are subsidiaries of foreign parent companies using IFRS may themselves also adopt IFRS in their audited financial statements.

Impact of the Economic and Financial Crisis

In October 2008, the economic and financial crisis suddenly invaded the world of the IASB (see Meltdown at the IASB? 2008). Market prices of securities had plummeted during the third quarter of the year, and banks that had classified their holdings of debt securities as "trading" despaired at the prospect of recording massive unrealized holding losses in their quarterly earnings. Although it was not possible under IFRS for companies to reclassify securities in a trading portfolio, such a reclassification was possible under U.S. GAAP, but only in exceedingly rare circumstances. Yet European banks complained that they were being placed at a competitive disadvantage in this respect to companies using U.S. GAAP, and pressed the IASB to allow IFRS users the opportunity to reclassify their debt holdings from "trading" to "hold to maturity." When debt securities are classified as "hold to maturity," no unrealized gains or losses would need to be recorded (unless there was an impairment). The European Commission notified the IASB that it must issue a standard immediately, without due process, to authorize such a reclassification—otherwise the Commission would take some unspecified action, which might lead to the IASB's losing its franchise to set accounting standards in the EU. The issue was urgent, because the banks were within days of releasing their third quarter earnings reports. Swallowing hard, the IASB duly approved such a standard, retroactive (as was demanded by the Commission) to July 1, 2008, when

[30] See http://www.sec.gov/rules/concept/2007/33-8831a.pdf.
[31] See the webcast of the SEC hearing on August 27, 2008, at http://www.sec.gov/news/openmeetings/2008/agenda082708.htm.

the market values of their debt holdings may not have been lower (or at least not much lower) than their carrying amounts. It was a bizarre episode, and Chairman Tweedie said he came close to resigning (Pressured IASB Chairman Considered Resigning 2008). But what has been overlooked is that the IASB stipulated a disclosure requirement that obliged the banks that reclassified to reveal what their profits would have been in the absence of the reclassification. The European Commission endorsed the standard a scant two days later, establishing a record for swift action. Deutsche Bank was one of the first to take advantage of this accounting gift and was obliged to disclose that its pretax profit of €93 million for the third quarter would have been a pretax loss of €732 million without the reclassification (see Stice and Stice 2010).

The IASB's precipitate surrender to the European Commission's demand gave pause to those in the U.S., perhaps even within the SEC, about the credibility of the Board as a standard setter that could stand up for its principles. U.S. critics seized on this episode as constituting evidence that the IASB cannot be relied upon in the face of political pressure, especially from within Europe (see, e.g., Deans and Mott 2008; Selling 2008; Ciesielski 2009). Yet these critics forget that the FASB itself was overruled by the SEC in 1978 on accounting for oil and gas producing companies (SFAS 19) and capitulated to political forces on accounting for troubled debt restructuring in 1977 (SFAS 15), accounting for investments in debt and equity securities in 1993 (SFAS 115), accounting for stock-based compensation in 1995 (SFAS 123), reporting of comprehensive income in 1997 (SFAS 130), and accounting for goodwill and other intangible assets in 2001 (SFAS 142) (Zeff 2010).

During the economic and financial crisis, one of the issues that has plagued the IASB, as well as the FASB, is the emerging conflict between its avowed objective to provide transparent information for investors in the capital market—in the service of securities market regulators—and the strong desire by banks and banking regulators that (1) the IASB's standards project an image of financial stability and (2) they do not result in "credit crunches" by depressing bank capital at a time of falling securities prices. During bad economic times, the professed interests of securities regulators and banking regulators may well collide, and the standard setter can come under intense political pressure to accommodate the latter. The particular pressure on the IASB to accommodate the concerns of the banks in October 2008 would not have happened in good economic times. Similar pressure was exerted on the FASB during a U.S. House subcommittee hearing in March 2009, which was fomented by an aggressive lobbying campaign by the American Bankers Association (see Pulliam and McGinty 2009). Concerns have been expressed in the G20, in meetings of the EU economic and finance ministers, and by banking regulators about the role they envision for accounting standards in preserving financial stability.[32]

Further Constitutional Changes

In early 2009, the trustees of the IASC Foundation, today known as the IFRS Foundation, made two important changes in the Constitution. It decided that a global standard setter should be seen to draw explicitly on the global village. It revised the Constitution to increase the number of Board members from 14 to 16 and specified geographical quotas for membership: four from North America, four from Europe, four from Asia-Oceania, one from South America, one from Africa,

[32] See, for example, the issues aired in David Tweedie's address to the ECOFIN meeting on June 9, 2009, at http://www.ifrs.org/News/Announcements+and+Speeches/Chairman+of+the+IASB+addresses+ECOFIN+meeting.htm. For the role of accounting in the G20 London Summit in April 2009 involving procyclicality and banks, see http://governancexborders.com/2009/04/04/accounting-at-the-g20-london-summit-watering-down-or-walking-the-talk/.

and two to achieve geographical balance. Further, no longer would two dedicated places be held by part-timers, but as many as three of the 16 members may be part-timers.

Also, in response to the criticism raised in the European Parliament and elsewhere, the trustees agreed that a private-sector standard setter professing to act in the public interest should be overseen by leading figures from the regulatory world. The trustees therefore revised the Constitution to concede some authority to a Monitoring Board, which would approve the appointment of trustees and generally oversee their performance. The Monitoring Board, at least initially, was composed of representatives of the SEC, Japan's Financial Services Agency, the European Commission, and the Emerging Markets and Technical Committees of IOSCO. The Basel Committee on Banking Supervision participates as an observer. SEC Chairman Mary Schapiro has regularly attended the meetings of the Monitoring Board, which have served to enhance her understanding of the operation and aims of the IASB and have enabled her to come to know other world regulators also interested in the Board's work. Her experience on the Monitoring Board may inform the decision she ultimately supports on whether, and when, U.S. publicly traded companies may use, or be required to use, IFRS in their financial statements.

The IASB and FASB Press to Complete their Convergence of Major Projects by 2011

Following up on their series of MoUs, both boards have been directing their energies vigorously toward completion of several major convergence projects: financial instruments, insurance contracts, leases, and revenue recognition. The boards had hoped to complete these projects by June 2011, when the last three original members of the IASB, including Chairman Tweedie, were to retire, but the complexity of the issues, coupled with the different work styles and constituencies of the two boards, have forced a postponement of their completion dates. That Robert Herz suddenly retired as FASB chairman in August 2010 and that the FAF trustees overseeing the FASB first reduced the size of the board from seven to five effective July 1, 2008 and then abruptly announced in August 2010 that they were raising it back to seven, hardly made for smooth and easy deliberations between the two boards.

The boards were also under pressure from the G20, which said in the communiqué following its summit in Pittsburgh in September 2009, "We call on our international accounting bodies to redouble their efforts to ... complete their convergence project by June 2011" (Tweedie 2010). Following its summit in Toronto in June 2010, the G20 "urged" the two boards to complete their convergence projects by the end of 2011.[33]

IFRS for SMEs

In July 2009, the Board issued a pronouncement of a different kind: a 230-page, self-contained standard on IFRS for Small and Medium-Sized Entities (SMEs). Paul A. Pacter, currently a Board member, was the staff member who directed the development of the standard. It is intended to simplify the IASB's standards for use by SMEs, which in many countries are required to file audited financial statements with a public registry. There were some within the Board who did not favor issuing a standard intended exclusively for SMEs, and one member dissented to the standard for this reason. Nonetheless, the standard has attracted considerable interest. The IASB reported in July 2011, only two years after the standard was issued, that 74 jurisdictions have adopted it or have announced plans to do so.[34]

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[33] See point 30 in the G20's declaration of June 26–27, 2010 at http://www.iasplus.com/crunch/1006g20declaration.pdf.

[34] "Observer Note, IFRS Foundation Trustees meeting, New York, July 12–14, 2011, Agenda Paper 9 (updated for World Standard Setters meeting, September 16, 2011)."

Progress of Country Decisions to Adopt or Converge with IFRS

In addition to the decisions by the EU and Australia to require the adoption of IFRS by 2005 for listed companies, jurisdictional adoptions or full convergence for listed companies have gone into effect in South Africa, New Zealand, Israel, Hong Kong, Brazil, Chile, Canada, and Korea, and also in many emerging economies and developing countries (but perhaps with deviations). Japan's Financial Services Agency (FSA) decided in 2009 to permit listed companies operating internationally to begin using IFRS effective with the fiscal year ending in 2010, and the FSA intends to decide before long on the possible mandatory use of IFRS by all listed companies (Yorihiro 2011). China has gone most of the way toward full convergence with IFRS and asserts that Chinese listed companies' financial reporting results are not all that different from what would be achieved by full convergence (Hoogervorst 2011). India has begun a process of convergence, but persistent lobbying has so far led to some significant deviations from full IFRS.[35] Since 2005, the SIX Swiss Exchange has allowed the companies on its main board to use either U.S. GAAP or IFRS, while Swiss GAAP may be used only by companies on the secondary board (Achleitner and Eberle 2010, 232). More than 90 percent of the companies on the main board use IFRS.

The role of the World Bank in persuading emerging economies and developing countries to converge toward, or adopt, IFRS cannot be underestimated. Over the last dozen or so years, the Bank has conducted more than 80 country studies known as Reports on the Observance of Standards and Codes (ROSC), Accounting and Auditing, which, among other things, review in depth the accounting standards and practices in each country and, in a section on policy recommendations, urges the country to adopt IFRS for public interest entities, or, if it has already done so or has begun converging to IFRS, to fortify its application of IFRS (*The World Bank Reports on the Observance of Standards and Codes (ROSC): Overview of the ROSC Accounting and Auditing Program* 2004).[36]

Other Geographical Interest Groups Organize to Compete with Europe and the United States

In the early years of the IASB, Europe and the United States were the regions whose influence the IASB felt the most—Europe because of proximity and its early commitment to provide a large core of adopting companies, and the U.S. because of (1) the respect accorded the SEC and the FASB and (2) the IASB leadership's fervent desire to attain U.S. acceptance of its standards. Of late, other regions have been organizing themselves to compete with Europe and the United States for the attention of the IASB. In 2009, standard setters or accounting bodies from 16 countries founded the Asian-Oceanian Standard-Setters Group (AOSSG), whose membership has since risen to 25. It has become proactive and recently issued a vision statement (*A Driving Wind for IFRS from Asia-Oceania* 2011). In 2011, standard setters or accounting bodies from five South American countries and Mexico founded the Group of Latin American Standard Setters (GLASS), organized mainly by Brazil (CReCER 2011). In 2005, a body known as the National Standard-Setters (NSS) was formed and chaired by Ian Mackintosh, the then chairman of the U.K. Accounting Standards Board who became vice-chairman of the IASB in July 2011. NSS is currently chaired by Patricia O'Malley, the former IASB Board member from Canada, and it has been holding semi-annual meetings and submitting its views to the IASB on a wide range of issues. More than two dozen

[35] See the report of a speech in May 2011 in India by Board Member Prabhakar Kalavacherla at http://taxguru.in/finance/iasb-flays-india-postponing-ifrs.html.

[36] For the World Bank's ROSC reports on accounting and auditing, see http://www.worldbank.org/ifa/rosc_aa.html.

standard setters, plus observers that include the IASB, EFRAG, and the SEC, regularly attend its meetings.

As can be seen, the IASB has no shortage of groups conveying advice on its work program and priorities, in addition to the comment letters it routinely receives on discussion papers and exposure drafts.

XI. SOME CHALLENGES FACING THE IASB

Some of the challenges facing the IASB as the global accounting standard setter do not fall under its control. But the IASB nonetheless has influence. Five challenges are discussed below.

First, how should the IASB cope with the SEC's eventual decision to adopt, converge to, or continue to study IFRS as the financial reporting framework to be used by U.S. issuers? The process of mutual convergence between IFRS and U.S. GAAP, which has been an avowed policy of both the IASB and the FASB since 2002, will surely not extend beyond the terminal dates of the major projects currently heading toward completion.[37] Countries that have signed on to IFRS, as well as the leadership of the IASB, believe that the time is nigh for the SEC finally to decide whether to commit to IFRS, or not. If it does not, the IASB must consider the consequences of an IFRS world without the United States. Not a few countries, including Japan and China, are watching the SEC's next move as a signal that could influence the future direction and scope of their own commitment.[38] Even though the United States accounted for only 31 percent of the world's equity market capitalization at the end of 2009, reflecting a significant decline from 52 percent in 2001 (Tweedie 2011), the U.S. capital market is still the largest and most important in the world, and the SEC is the world's most respected securities market regulator.

Second, the IASB will need to manage and balance the diverse feedback from the recently formed regional standard-setter groups in Asia-Oceania and Latin America, in addition to the advice it already receives from Europe and the United States and from the National Standard-Setters. As countries and regions have come to appreciate the full impact of IASB decisions on their companies' financial reporting, as well as on the economic and political consequences that are perceived to flow from those decisions, the advice received from different parts of the world has become better organized and perhaps more insistent.

Third, there is a need for the IASB to inspire the improvement of performance by securities market regulators in obtaining listed companies' compliance with IFRS. There is a great deal of variability in the effectiveness of regulator performance even within the EU, let alone from country to country in the rest of the world, and especially in emerging economies and developing countries. A commitment by a country that its listed companies are required to use IFRS lacks credibility if it is not backed up by a vigilant and proactive regulator, whether in the private or public sector. In the EU, the former Committee of European Securities Regulators published self-assessments and peer reviews of the performance of the regulators in its 27 member states plus Norway and Iceland (see, e.g., *Final Report of the Review Panel Concerning the Updated Self Assessment and Peer Review of CESR's Standard No. 1 on Financial Information* 2009), but it possessed little leverage to improve their performance. Its successor beginning in January 2011, the European Securities and Markets Authority, possesses somewhat more force in such matters. Elsewhere around the world, IOSCO can do no more than cajole national regulators into becoming more proactive when they encounter deficient financial reporting, but it possesses no authority beyond persuasion.

[37] In a speech on July 29, 2011, IASB Chairman Hans Hoogervorst referred to the Board's "post-convergence agenda," implying that the mutual convergence program with the FASB extends no further than the major projects currently nearing completion (Hoogervorst 2011).

[38] For Japan, see Yorihiro (2011) and http://www.fsa.go.jp/en/announce/state/20110621-1.html.

Fourth, in jurisdictions where IFRS is the governing set of standards for listed companies, the affirmation of compliance with IFRS by the company or the auditor, or both, may refer to the financial reporting framework in a way that makes it unclear to readers whether, and to what degree, it corresponds with IFRS as issued by the IASB. For example, in the EU, companies and auditors are required to affirm compliance with "IFRS as adopted by the EU." How can readers in other parts of the world know whether "as adopted by the EU" is the same as "as issued by the IASB"? In Hong Kong, where it is required that full IFRS be used, listed companies and their auditors are implausibly required to affirm compliance with Hong Kong Financial Reporting Standards, not IFRS. India, when it completes its transition to IFRS, will require companies and auditors to affirm compliance with Indian accounting standards and IFRS. In February 2008, the Technical Committee of IOSCO recommended that companies in IFRS-using countries should be responsible for divulging whether their financial statements comply with "IFRS as issued by the IASB" (IOSCO Technical Committee 2008). The same burden needs to be shouldered by auditors. The IASB can play a role in encouraging these and other jurisdictions to enable readers of their listed companies' financial statements to become apprised whether, and to what degree, their financial reporting framework corresponds with full IFRS.

Fifth, and this challenge does fall under the control of the IASB, proper cognizance must be taken in the development of standards and interpretations of the differences in the fundamental way in which business is done in different countries. For example, how can a standard on consolidated financial statements be designed to reflect the substantive relationships in Japan's *keiretsu* and Korea's *chaebol*, the networks of affiliated companies that may not have a parent company? In China, most business is done by state-owned entities, not by private-sector enterprise. To what degree should accounting standards make explicit provision for the different way that business is done in Islamic countries? An insistence that a single accounting method in a standard be used in all countries may, in some instances, do no more than accentuate these differences, not promote genuine worldwide comparability. Achieving global comparability is not the same as achieving comparability within a single national environment, where there are common tax incentives and business customs (Zeff 2007b). The IASB must make its decisions wisely and in the light of what seems to be required to promote genuine worldwide comparability, which may mean providing for optional approaches attuned to expressly specified national circumstances.

XII. CONCLUSION

Most people who currently follow the work of the IASB may know little if anything about its indispensable predecessor, the IASC. But without the trailblazing of the IASC, there would be no IASB today. In 1973, the part-time IASC was launched as the first international standard setter, an offspring of professional accounting bodies in nine countries. To persuade an unbelieving world, it had to build a record of widespread procedural consultation and a production of competent standards, including an attentiveness to the need to enhance the quality of its initial, generic standards. In the end, it won over national standard setters, securities market regulators, the World Bank, and finally, and pivotally, the European Commission. Following a necessary restructuring of the IASC, it re-emerged as the IASB in 2001, with a promised clientele of some 7,000 listed companies in the European Union. It was now mostly full-time with a much larger technical staff and was overseen by a distinguished body of trustees, which raised the required financial support. Its standards were no longer seen as voluntary adjuncts to national standards, but were intended to supplant national standards around the world. In a scant ten years, the IASB has achieved a great deal. Whatever one might say about chips in the armor of worldwide comparability because countries have granted exemptions or exceptions or have tolerated delays in the acceptance of the IASB's full complement of standards—and some countries have converged with IFRS only up to a

point—the comparability of company financial reporting around the world is far superior today than what it was prior to 2005, when the European Union led the way with its required adoption of IFRS across its 25 member states. As suggested above, there is still much to do. The IASB must deliver major standards on subjects that have bedeviled even the most advanced national standard setters. And it must continue to refine and improve and expand the array of its standards, especially as new issues and problems arise. Already the roll of major countries that have adopted or converged with IFRS is impressive. And with the passage of time, those that are recalcitrant will become accustomed to the idea that financial reporting, unlike law, should be the same the world over, because the securities markets today are one.

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