

# [Convergence projects fasb and iasb](https://assignbuster.com/convergence-projects-fasb-and-iasb/)

What are the convergence projects between FASB and IASB? What are their major problems? What are their major achievements? The Norwalk Agreement, first announced on September of 2002, was a paramount step towards a unified global accounting standard. In this document, both U. S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Boards (IASB) (the Boards) “ each acknowledge their commitments to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. (MoU Progress Report, 2008) In 2006, and subsequently updated in 2008, the boards agreed on a Memorandum of Understanding (MoU) which detailed the short and long-term convergence projects “ that would bring the most significant improvements to International Financial Reporting Standards (IFRS) and U. S. Generally Accepted Accounting Principles (US GAAP). ” (IASB-FASB, 2012). While many of the short-term and long-term convergence projects have been completed, currently, the boards have yet to finalize all of the technical pronouncements regarding Financial Instruments, Revenue recognition, and Leases.

Herein, I will discuss the purpose of the convergence projects, their major problems they face and their major achievements to date. The purpose of the convergence of accounting standards is to have a single set of globally accepted accounting standards where understandability, relevancy, reliability, and comparability across multinational borders are faithfully represented, and credible. Convergence refers to the increase in the comparability of different entities’ financial reports, which will contribute to the free flow of global investment and benefit a variety of stakeholders (i. e. , investors, corporates and auditors) (PWC, 2007).

Additionally, to simplify and reduce the “ administrative burden on multinational reporting entities” (FASB Attachment F, 2004), and “ improve the ability of investors to compare investments on a global basis and thus lower their risk of errors of judgment. ” (PWC, 2007) “ The goal, in brief, is an improved reporting model built on principle-based standards that can be applied in a cost-effective manner. ” (PWC, 2007). Convergence would be achieved by the Boards adopting mutually accepted, high-quality standards where homogeneity and transparency are being applied internationally, leading to a firm global capital markets. From inception, onvergence was initially slated to be completed by 2008, and then revised to June of 2011; however, setbacks currently place the timetable for the remaining convergence projects to mid-2013. Opponents of the adoption of IFRS have questioned whether IFRS would truly create a platform of standardization where comparability is evenly distributed. They point to the “ variations of IFRS and the reliance on professional judgment when using the principles-based standards. ” (AICPA, 2009) As a matter of fact, empirical data demonstrates this to be true as the legalenvironment, and most importantly, cultures, play a role in interpretations.

An analysis from 2007 “ shows that U. S. accountants consistently exhibit more conservatism than Greek accountants”, with the former “ less likely to disclose information than U. S. Accountants. ” (Tsakumis, 2007) And more recently, a new study completed by Cass Business School at the City University of London, identified “ inconsistencies in compliance with certain impairment disclosure requirements across jurisdictions in Europe, which suggested that IFRS are not being evenly applied across jurisdictions. (Siac, 2013) Over time, there is a high possibility these situations will lead IFRS to become rules-based, defeating the purpose of flexibility in which IFRS standards affords its constituents. Furthermore, as a result of disagreements with certain standards, “ some convergence projects either were discontinued or resulted in different IASB and FASB standards” (Pacter, 2013) For example, research and development (R&D) was not converged as all R&D is expensed under U. S. GAAP while some development costs are capitalized under IAS 38.

Another challenge convergence faces is the fact that under IFRS, there are little industry-specific standards, which has led many commentators to voice “ concerns about how IFRS would impact their particular industry” (AICPA, 2009). Other critics have voiced concerns regarding the uncertainty surrounding funding for the IASB as it’s “ largely funded through voluntary contributions from a wide variety of participants across the world’s capital markets. The concern with that model is that it leaves the IASB open to the perception that organizations that provide funding could try to influence the accounting standards” (SIAC, 2012).

Thisobservationquestions whether there is true independence of the IASB and the integrity of its standard-setting process. But it hasn’t all been dark clouds; there have been quite a few bright spots through the convergence projects. For example, in November 2007 an important milestone was achieved when “ the U. S. Securities and Exchange Commission (SEC) agreed to accept from foreign private issuers financial statements prepared in accordance with IFRS without reconciliation to U. S. GAAP. ” (AICPA, 2009).

Moreover, major achievements have been attained in convergence completion of short-term projects along the overwhelming support of the international community and stakeholders who wish to have ease of comparability cross-borders. The G-20 group, comprising of 85% of global gross national product, have “ called for the implementation of a globally consistent set of accounting standards. ” (Gornik-Showerman, 2010). Today, IFRS is used in over 100 countries, and approximately 40% of Global Fortune 500 companies currently use IFRS which is a testament to its high-quality standards and success in influencing global capital markets.

In conclusion, global convergence has had major victories in attaining a globally accepted accounting standards, but it still has a few challenges ahead, specifically the SEC, who acknowledges IFRS is of high quality, but does not seem to think that the solution is the adoption of IFRS, but rather adopting some of its provisions. The SECs mindset defeats the purpose of globally set standards, which will lead IFRS and U. S GAAP to have their own separate standards with numerous similarities.

In my opinion, there are too many variables in play that are uncontrollable, as we are dealing with human beings who are raised differently, with different role models, ethics, and are part of various societies where cultures influence their way of being. I do not feel there can be one globally accepted accounting standards as it is impossible to account for every single world-wide business transaction, or to predict what other standards will need to be established globally as economies change due to recessions, wars, and politics. References: American Institute of Certified Public Accountants.

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