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One Worldwide Set of Global Accounting Standards? — HMM

Neal F. Newman*

I. INTRODUCTION

An effort is currently underway that involves a monumental shift in the way accounting and financial information is reported. In progress is an endeavor to move provinces around the world onto one single set of global accounting standards. The body leading this effort is the International Accounting Standards Board (“IASB”),¹ a London-based independent agency. The accounting regime being proposed is referred to as International Financial Reporting Standards (“IFRS”).² The stated rationale behind this global effort is one of comparability and uniformity (i.e., all economies around the world speaking one accounting language).³

This paper examines the contemplated worldwide adoption of IFRS. This paper explores whether a one size fits all accounting regime is viable where economies around the globe, though interconnected, have different histories, different cultural norms, different economic dynamics, different investor and capital bases, and therefore, perhaps different uses for financial information. Do these different cultural norms, economic dynamics, investor and capital

* Neal F. Newman, Professor, Texas A&M University School of Law. Special thanks are owed to my family who tolerated my considerable time away from home and to law students Zainah Shafi and Paul Elkins for their valuable research and help in getting to the finished product. Also thanks to Texas A&M University School of Law for supporting my work through the provision of a summer research grant.

1. The actual organization is the IFRS Foundation. The IASB is the accounting-standard setting body of that organization. See IFRS (2013), <http://www.ifrs.org/Pages/default.aspx>.

2. The accounting regime is referred to generally as IFRS but consists of 1) International Financial Reporting Standards; 2) International Accounting Standards; and 3) the International Financial Reporting Interpretations Committee (“IFRIC”). The IFRIC provides interpretive guidance for both the International Financial Reporting Standards and the International Accounting Standards. See *generally* IASB-INTERNATIONAL ACCOUNTING STANDARDS, INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) INCLUDING INTERNATIONAL ACCOUNTING STANDARDS (IASS) AND INTERPRETATIONS AS APPROVED 1 JANUARY 2008, (2008).

3. See Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers, 73 Fed. Reg. 70816, 70817 (proposed Nov. 21, 2008), *available at* <http://www.sec.gov/rules/proposed/2008/33-8982>.

bases therefore necessitate different uses for financial information? And if so, how does that affect the stated goal of “[a] single set of high quality global accounting standards?”⁴ It is possible that these different cultural norms, economic dynamics, investor bases, etc. are inconsequential to this worldwide adoption effort? Or, upon closer examination, there may be differences so significant that *one* single set of high-quality global accounting standards is not viable when each province seeks to adopt, interpret, and apply these global standards locally. It is doubtful whether all major and minor countries around the world can adopt, interpret, and enforce the IASB’s IFRS version in a uniform manner. This paper’s intent is to explore and highlight the difficulties of this proposition.

Part II explains in general terms what the differences are between IFRS and the accounting regimes most prevalent prior to the movement towards IFRS. Explaining the differences between IFRS and other accounting regimes helps create a backdrop for the issues involved with switching from a country’s local accounting regime to IFRS. Parts III, IV and V study our sample countries—Japan, China, and Russia—and 1) discuss at what stage the particular country is in adopting IFRS; 2) highlight the IFRS issues particular to that country; and 3) analyze how those issues might impact the stated goal of *one* single set of high quality global accounting standards.⁵ These countries have been selected because they are ranked third, second, and fourth, respectively, in the world in terms of GDP and therefore give valuable insight on the issues related to IFRS adoption on a global scale.⁶

Finally, Part VI explores possible measures to help facilitate successful IFRS implementation. The suggestion in Part VI is both aggressive and aspirational. But, by making the suggestion, the hope is to foster a full appreciation for the challenges that face this monumental global effort as well as the considerable collective effort that will be required to truly achieve the stated goal of “a single set of high quality global accounting standards.”⁷ Part VII concludes.

4. See Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers, 73 Fed. Reg. 70816, 70817 (proposed Nov. 21, 2008), available at <http://www.sec.gov/rules/proposed/2008/33-8982>.

5. *Id.*

6. See *List of Countries by GDP (PPP)*, WIKIPEDIA, [http://en.wikipedia.org/wiki/List_of_countries_by_GDP_\(PPP\)](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)) (last visited Feb. 6, 2013).

7. One of the stated objectives of the Board is “to develop a single set of high quality, understandable, enforceable and globally accepted International Financial Reporting Standards (IFRSs) through its standard-setting body, the International Accounting Standards Board (IASB).” INTERNATIONAL ACCOUNTING STANDARDS BOARD, INTERNATIONAL FINANCIAL REPORTING STANDARDS, <http://www.ifrs.org/The-organisation/Pages/IFRS-Foundation-and-the-IASB.aspx> (last visited Oct. 19, 2013).

II. INTERNATIONAL FINANCIAL REPORTING STANDARDS

As mentioned above, IFRS is a set of accounting standards the IASB is drafting. The IASB is a London-based independent agency created in 2001.⁸ The decision to design and develop a single set of global accounting standards was born out of a desire to facilitate, among other things, the ease with which an investor could compare the investing merits between two companies separated by continents rather than bordering states.⁹ The consensus opinion was that financial statement uniformity would be the best way to accomplish this. IFRS has become that uniform standard around which major countries are coalescing.¹⁰ But what sounds good in theory becomes much more formidable when efforts are made to transition from abstract theory to concrete form.

A. IFRS VS. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Historically, most publicly held companies, whether they are U.S.-based or foreign, have used United States Generally Accepted Accounting Principles (“U.S. GAAP” or “GAAP”) as their financial accounting and reporting regime.¹¹ U.S. GAAP historically was the preferred accounting regime because it was a prerequisite for access

8. The IASB was formerly the International Accounting Standards Commission (“IASC”) which was formed in 1973. The IASC was an independent, private sector organization whose objective was to facilitate the cross-border flow of capital by making financial statements more comparable even though they were prepared under various sets of National Accounting Standards. In April 2001, the IASC was restructured and renamed the IASB. The IASB’s objectives include: (1) developing a set of high quality, understandable, and enforceable global accounting standards; (2) promoting the use and rigorous application of these standards; and (3) bringing about convergence of National Accounting Standards, and International Accounting Standards. John L. Haverty, *Are IFRS And U.S. GAAP Converging? Some Evidence From The People’s Republic Of China Companies Listed On The New York Stock Exchange*, 15 J. INT’L ACCT. AUDITING & TAX’N 48–51 (2006).

9. This sentiment has been expressed on numerous occasions: “those in favor of implementing IFRS argued that a shared set of standards would make it easier to compare companies across different countries. This would enhance the effectiveness of competition for international funds and make international capital markets more efficient leading to a lower cost of capital for firms. Thomas Jean & Hervé Stolowy, *Do Accounting Standards Matter? An Exploratory Analysis of Earnings Management Before and After IFRS Adoption*, 27 J. ACCT. & PUB. POL. 6, 480–81 (2008).

10. To date, over 132 countries have already adopted some form of IFRS. At this point, however, it is not clear whether each country is adopting these standards uniformly. See <http://www.iasplus.com> for a list of countries that have adopted some form of IFRS.

11. As will be expounded upon when we look at each country locally, the countries that have been selected for study engage in some localized form of proprietary accounting which, for the most part, is loosely based on GAAP. Therefore, for purposes of highlighting the issues that came with transitioning, GAAP will be the accounting regime used as the baseline.

to one of the most well-developed, well-run, and well-regulated capital market systems in the world: the United States.¹² But as the rest of the world evolved both economically and technologically, the U.S. lost its monopolistic foothold on being the preferred destination to access public capital.¹³ Other countries developed their capital market systems to be on par with the U.S.'s and therefore lessened the leverage that the U.S. had to impose its accounting regime (U.S. GAAP) onto the rest of the world.¹⁴

Depending on the source, views vary when scholars, critics, or advocates attempt to chronicle the differences between IFRS and GAAP.¹⁵ But the most-highlighted difference between IFRS and U.S. GAAP is that IFRS is considered more of a principles-based regime, whereas U.S. GAAP is predominately rules-based.¹⁶ A principles-based accounting regime is one that gives accounting guidance that is principled in nature instead of guidance based on quantified bright-line tests or rules that break accounting down to an exercise of black and white or "check the box." The whole idea behind IFRS is to give companies the flexibility to capture the "economic substance" of financial transactions rather than the "check the box" approach, which was the case at times with U.S. GAAP and some of the other provincial accounting regimes.¹⁷ The criticism surrounding GAAP's use was that GAAP fostered an environment where corporations could structure transactions that merely comported with GAAP's bright-line tests but nonetheless were not steeped in economic reality.¹⁸ IFRS, arguably, is a movement away

12. See generally *The Global Financial Centres Index 11*, LONG FINANCE (March 2012), <http://www.longfinance.net/Publications/GFCI%2011.pdf> (rating cities on criteria including regulation, market access, infrastructure, business environment and talent pool available). In the 2012 survey, New York was ranked number two behind London. *Id.*

13. See generally *id.*

14. See generally *id.*

15. For example, Professor Lawrence Cunningham argues that it is incorrect to make the assertion that GAAP is strictly a rules based accounting regime and IFRS is strictly a principles based accounting regime. Professor Cunningham makes the argument that both accounting regimes are a combination of rules oriented and principles based accounting Standards. See generally Lawrence A. Cunningham, *A Prescription to Retire the Rhetoric of Principles Based Systems in Corporate Law, Securities Regulation, and Accounting*, 60 VAND. L. REV. 1411 (Oct. 2007).

16. See Remi Forgeas, *Is IFRS That Different From U.S. GAAP?* AICPA IFRA RESOURCES (June 16, 2008), <http://www.ifrs.com/overview/General/differences.html> (debating the issues).

17. See George J. Benston, Michael Bromwich & Alfred Wagenhofer, *Principles Versus Rules-Based Accounting Standards: The FASB's Standard Setting Strategy*, 42 ABACUS No. 2, 165, 168-70 (2006) (setting forth the arguments by the Financial Accounting Standards Board), available at http://fisher.osu.edu/~schroeder_9/AMISH520/Benston2006.pdf.

18. Final Report of Neal Batson, Court-Appointed Examiner, *In re Enron Corp.*, No. 01-16034, (Bankr. S.D.N.Y., Nov. 4, 2003) (see the Report's Section IV-Specific Role of Andersen and Potential Liability), available at http://www.concernedshareholders.com/CCS_ENRON_

from this type of accounting and financial reporting and one that is focused on capturing a transaction's economic essence.

B. A GAAP VS. IFRS ILLUSTRATION

The example most often cited to illustrate the rules-based versus principles-based distinction between GAAP and IFRS is lease accounting treatment under the two regimes. Leases are often long-term obligations into which a corporation enters for items such as, for example, buildings to use as office space or equipment such as trucks or other vehicles. Under certain circumstances, the company is required to record these obligations as outright asset purchases. In other circumstances, the item can be recorded as an expense. How these lease obligations are accounted for can have a significant financial statement impact on a corporation's balance sheet and periodic income statements. Under U.S. GAAP, a corporation must capitalize a lease obligation if the lease term is equal to seventy-five percent or more of the leased property's economic life.¹⁹ The IFRS equivalent addresses this same lease term issues but without quantification.²⁰ International Accounting Standard ("IAS") 17 requires capital lease accounting treatment if "the lease term is for the *major part* of the asset's economic life, even if title is not transferred."²¹

Further, GAAP requires capital lease accounting treatment if the present value of the lease payments equal ninety percent of the property's fair market value.²² By comparison, IFRS states this regulation in principled terms only. IAS 17 requires capital lease accounting treatment if the present value of the minimum lease payments amounts to at least *substantially all* of the leased asset's fair value.²³

Where GAAP gives quantifiable certainty, IFRS requires the financial statement preparer to use judgment. Under IFRS, the financial statement preparer must assess what constitutes a "major part" of an asset's economic life or whether the present value of

Report.pdf (last visited Feb. 8, 2013).

19. See generally *Statement of Financial Accounting Standards No. 13: Accounting for Leases*, FINANCIAL ACCOUNTING STANDARDS BOARD §§ 6-7 (1976), <http://www.fasb.org/pdf/fas13.pdf>.

20. See generally International Accounting Standard 17: Leases, par. 10(a)-(e), International Accounting Standards Board, International Financial Reporting Standards (IFRS) Including International Accounting Standards (IASS) and Interpretations As Approved (2008) [hereinafter IFRS].

21. See generally *id.*

22. See generally *Statement of Financial Accounting Standards No. 13*, *supra* note 19.

23. See generally IFRS, *supra* note 20.

scheduled lease payments constitutes “substantially all” of the leased asset’s fair value. There are other examples, but the IFRS versus GAAP distinctions are not this paper’s focus. The lease example is set forth merely to give a frame of reference.²⁴ In the following three sections, this paper examines Japan, China, and Russia’s IFRS adoption efforts. These three countries have been selected because of their cultural and economic histories and their high GDPs (Japan, China, and Russia are ranked third, second, and fourth, respectively, in the world in terms of GDP).²⁵ Examining these three countries is a good indicator of how IFRS will fare on a global level.

III. JAPAN

As previously mentioned, Japan is ranked third in the world in terms of GDP.²⁶ In 2005, Japan made a tangible commitment towards converting its accounting regime, Japanese Generally Accepted Accounting Principles (“JGAAP”), to IFRS.²⁷ The Accounting Standards Board of Japan (“ASBJ”) and the IASB launched a joint convergence project²⁸ with the aim to “harmonize” JGAAP with IFRS.²⁹ In August 2007, Japan took the convergence process a step further when Ikuo Nishikawa, Chairman of the ASBJ, and Sir David Tweedie, Chairman of the IASB, made a joint announcement to accelerate convergence between JGAAP and IFRS. This acceleration is referred to as the Tokyo Agreement.³⁰ According to the Tokyo Agreement, the IASB and the ASBJ established both short-term and long-term benchmarks—dates by which they would have various stages of the convergence process completed.³¹ By 2008, Japan reached some short-term benchmarks toward the convergence process.³² The IASB and the ASBJ set a target date of June 30, 2011,

24. See generally Cunningham, *supra* note 15 (providing more in depth discussion on the “Rules” vs. “Principles” debate).

25. As of May 2012, Japan’s GDP was 4.3 trillion, behind the U.S. at 14.6 trillion and China at \$10 trillion. *The World’s Largest Economies 2012*, THE RICHEST, <http://www.therichest.org/world/worlds-largest-economies/> (May 20, 2012).

26. *Id.*

27. *IFRS News*, KPMG (Dec. 2009), <http://www.frontiersinfinance.com/15165.htm>.

28. Press Release, Int’l Accounting Standards Bd., The ASBJ and the IASB announce Tokyo Agreement on Achieving Convergence of Accounting Standards by 2011 (Aug. 8, 2007), available at <http://www.ifrs.org/News/Press-Releases/Pages/The-ASBJ-and-the-IASB-announce-Tokyo-Agreement-on-achieving-convergence-of-accounting-standards-by-2.aspx>.

29. *Id.*

30. *Id.*

31. *Guide to International Financial Reporting Standards: Frequently Asked Questions*, Protiviti (June 2010), <http://www.protiviti.com/en-US/Documents/Resource-Guides/IFRS-FAQ-Guide-2nd-Ed-Protiviti.pdf>.

32. *Id.*

to resolve other differences between IFRS and JGAAP.³³ Finally, the ASBJ has set a target date of 2015 or 2016 as the date on which mandatory IFRS adoption for all listed Japanese companies will occur.³⁴

By all accounts, although the convergence process on the surface seems to be progressing as scheduled, and Japan, in general, seems to be amenable to the prospect of converting its accounting regime to IFRS, there may be issues that bring a smooth and complete transition to IFRS into question. There is a distinction between IFRS *form* and IFRS *substance*. And although it appears that Japan is implementing IFRS in form, questions remain as to whether Japan will embrace IFRS' true substance, as intended by the IASB.

A. JAPAN'S ACCOUNTING AND REGULATORY FRAMEWORK

Japan comes with some unique cultural issues, which may have a bearing on whether and how well it fully embraces IFRS in both form and substance. Japan has had a long and tumultuous history marked by two World Wars.³⁵ Both wars, but particularly the Second World War, did a lot to shape Japan's accounting and financial regulatory framework. After the Second World War, the Allied Forces occupied Japan for some time.³⁶ It was during that time that the Allied Forces put certain legal infrastructures in place under which Japan would operate going forward. A large component of these legal infrastructures was an accounting and financial reporting regulatory framework. That accounting and regulatory framework has evolved from the structure that the Allied Forces originally put in place back in the late 1940s. But, although the names, agencies, and some of the responsibilities may have changed somewhat, the question that lingers is whether the structural changes in form will result in the substantive changes necessary for a successful Japanese conversion to IFRS.

33. *Guide to International Financial Reporting Standards: Frequently Asked Questions*, Protiviti (June 2010), <http://www.protiviti.com/en-US/Documents/Resource-Guides/IFRS-FAQ-Guide-2nd-Ed-Protiviti.pdf>.

34. *Id.*

35. On August 13, 1914, Japan declared war on Germany. November 11, 1918, marked the end of World War I with the signing of the Armistice. *World War One Timeline*, HISTORY ON THE NET (Aug. 10, 2012), http://historyonthenet.com/WW1/WW1_timeline.htm. World War II spanned from 1931-1945 ending with Japan's formal surrender. *World War II Timeline*, UNITED STATES HOLOCAUST MEMORIAL MUSEUM (May 11, 2012), <http://www.ushmm.org/wlc/en/article.php?moduleid=10007306>.

36. See Bill Gordon, *The Allied Occupation of Japan*, BILL-GORDON.NET (Feb. 1, 2012), <http://wgordon.web.wesleyan.edu/papers/alliedoc.htm> (moved to new web domain, <http://www.bill-gordon.net/>, on Oct. 6, 2012).

B. JAPAN'S ACCOUNTING FRAMEWORK HISTORICALLY

Today, Japan's accounting and financial reporting regulatory framework looks much different than it did back in the 1940s. The reasons for this evolution are not clear, but economic necessity, corporate scandal, and continued globalization appear to be major factors. In tracking Japan's regulatory evolution, a noteworthy starting point would be immediately after World War II, when the Allied Forces set about putting new legal infrastructures in place.³⁷ The main entities overseeing Japan's accounting and financial reporting processes before the Allied Forces infrastructures were implemented were the Ministry of Finance ("MOF"), which regulated all Japanese publicly listed companies, The Business Accounting Deliberation Council ("BADC"), and, to a lesser extent, the Japanese Institute of Certified Public Accountants ("JICPA").³⁸ The MOF was Japan's version of our Securities and Exchange Commission and therefore regulated all Japanese publicly listed companies.³⁹ To appreciate the chronology, originally, the Allied Forces set up a Securities and Exchange Commission similar to the United States' with the charge of performing the similar function of regulating Japan's publicly held companies.⁴⁰ But once the Allied Forces vacated, the Japanese abolished the Securities and Exchange Commission and transferred those regulatory responsibilities to the MOF.⁴¹ Likewise, the Allied Forces put in place the Japanese version of the securities laws—namely the Securities Exchange Law ("SEL"), which is premised on the United States Securities Act of 1933 and Exchange Act of 1934 and which set forth, among other things, the accounting and financial reporting requirements for publicly held companies.⁴²

The Business Accounting Deliberation Council ("BADC") was responsible for drafting Japan's accounting standards.⁴³ The BADC acted under the Ministry of Finance's auspices and was under the Ministry's direct supervision.⁴⁴

Finally there is the Japanese Institute of Certified Public Accountants ("JICPA"), which is the professional body to which all

37. T. E. COOKE & M. KIKUYA, *FINANCIAL REPORTING IN JAPAN: REGULATION, PRACTICE AND ENVIRONMENT* 93 (1st. ed. 1992).

38. *Id.* at 94–101.

39. *Id.* at 101–02.

40. *Id.* at 95.

41. *Id.*

42. *Id.*

43. *Id.* at 99.

44. *Id.*

Japanese CPAs must belong.⁴⁵ The JICPA's role was "to effectively exercise guidance over, communicate with, and supervise over the members in order to uphold professional standards and to improve and advance the profession."⁴⁶ Historically, the JICPA "had no authority to issue accounting standards, however."⁴⁷ Issuing accounting standards was under the BADC's exclusive purview.⁴⁸ The JICPA did, however, "issue practical guidelines and interpretations on accounting issues,"⁴⁹ so they did have some influence over the standard setting process, albeit a small one.

C. HISTORICALLY, A TIGHT REIN ON THE ACCOUNTING AND ITS PROFESSIONALS

What is important to note at this juncture is that the Japanese used these regulatory bodies to enforce an overall economic agenda. That Japan remains economically stable is an underlying core principle that drives many decisions the Japanese make regarding their economy and the forces driving their economy. In this regard, the Japanese used its accounting regulatory bodies to keep tight control over the accounting and financial reporting process. This included all aspects of the process, including the types and nature of financial disclosure, the people to whom disclosures must be made, and the number of people who could enter the accounting profession.⁵⁰ Ironically, these cultural norms and practices may have resulted in an accounting and financial reporting culture that is poorly situated to absorb a new financial reporting regime that, in many respects, is in direct conflict with some of the paradigms under which the Japanese have operated for years.

D. THE JAPANESE AGENDA'S EFFECT ON THE ACCOUNTING PROFESSION

The Japanese have made deliberate decisions backed by concrete action steps, which have resulted in an accounting profession that has been adequate for handling the more rudimentary and prescriptive rigors of the former JGAAP. But ironically, Japan's obsession with controlling both its processes and its people may have put Japan in a deficit in terms of having a sufficient number of qualified accounting

45. COOKE & KIKUYA, *supra* note 37, at 97.

46. *Id.* at 108.

47. *Id.* at 97.

48. *Id.* at 99.

49. *Id.* at 109.

50. *Id.* at 112.

professionals needed to adequately incorporate and immerse IFRS into its accounting and financial reporting framework.

First, the MOF (rather than the Japanese Institute of Certified Public Accountants) historically controlled the qualification process for Certified Public Accountants ("CPAs").⁵¹ Accordingly, the MOF made certification extremely difficult in Japan. The average pass rate for professionals seeking certification as a public accountant was ten percent in the early 1990s.⁵² This was back in the early 1990s.⁵³ By contrast, the pass rate in the United States during the same time period was twenty five percent.⁵⁴ Additionally, the Japanese-limited the amount CPAs could charge for their services.⁵⁵ Because the fees were capped through regulation, the CPAs' salaries were "not exceptional, particularly with respect to the number of years and difficulty of qualification."⁵⁶ The consequences of these measures were that Japan was not attracting its "best and brightest" to the accounting profession.⁵⁷ As a result of these artificial caps, the number of qualified CPAs in 1992 Japan was 8662,⁵⁸ compared to 322,135 in the United States for that same time period.⁵⁹

The Japanese kept these numbers artificially low out of fear that too many qualified accounting professionals would serve as a destabilizing force on their economy.⁶⁰ A large, vibrant and well-qualified pool of accounting professionals presumably would be more outspoken and forceful as to policy matters. Additionally, the Japanese feared that a more skilled labor force would be more mobile and more likely to sell its services to the highest bidder instead of staying put with a particular employer.⁶¹ In the Japanese's eyes, an abundance of highly qualified accounting professionals would undermine firm stability, put pressure on wages, destabilize the economy, and ultimately undermine Japan's goals of being a dominant economic power.

Ironically, while measures such as capping fees on a particular profession and limiting the number of professionals were successful in stabilizing a workforce, it is these same measures that may render the

51. COOKE & KIKUYA, *supra* note 37, at 105.

52. *Id.* at 99.

53. *Id.* at 111.

54. Arthur Allen & Angela M. Woodland, *The 150-Hour Requirement and the Number of CPA Exam Candidates, Pass Rates, and the Number Passing*, ISSUES IN ACCOUNTING EDUCATION, Vol. 21, No. 3 Aug. 2006 at 173-93.

55. *Id.* at 121.

56. COOKE & KIKUYA, *supra* note 37, at 121.

57. *Id.*

58. *Id.* at 111.

59. *Id.*

60. *Id.*

61. *Id.* at 146.

Japanese ill-prepared to absorb a new accounting regime. A full and proper IFRS adoption will require a very skilled and dynamic thinking individual, one who may be asked, if not required, to think outside the box. This is not the type of accounting professional that the Japanese were cultivating in sufficient numbers since the late 1940s.⁶²

E. THE ACCOUNTING EDUCATION IN JAPAN, HISTORICALLY

In addition to the artificial cap that severely limited the number of Japanese accountants who could obtain professional certification, the formal accounting curriculum in Japan was primarily theoretical rather than practical, which left even those who completed the formal curriculum in its entirety unable to perform the most basic accounting functions such as the preparation of balance sheets, income statements, or the statement of cash flows.⁶³ Accordingly, Japanese employers had to become much more creative in how they hired individuals to perform the tasks necessary to track and record their financial performance. As the countermeasure, Japanese employers resorted to hiring students with some formal accounting education. Oftentimes, these students had not completed the full complement of accounting courses necessary to qualify for formal certification.⁶⁴

But, these hires typically came with enough foundational accounting knowledge such that they could be trained to perform the accounting tasks commensurate with that organization. It should be emphasized that this practice of hiring accountants with less formal education and training comported with the Japanese tendency of hiring employees for life.⁶⁵ By hiring persons with less formal education and then cultivating them and making them integral to the company and its operations, the employer now had employees who were likely to be indebted to and therefore loyal to their employer.⁶⁶

Again, stunting IFRS development is a critical mass of accountants who may have been technically competent but may nonetheless lack the analytical and innovative skill set that is needed to apply the judgment-oriented and principles-based IFRS tenets. The “widget maker” accountant is fine for a prescriptive accounting practice that requires little judgment or analytical thinking. But for

62. COOKE & KIKUYA, *supra* note 37, at 121.

63. *Id.* at 145.

64. *Id.*

65. Hidetoshi Yamaji, *Interaction Between Japanese Accounting and Economic Structures*, in *THE JAPANESE STYLE OF BUSINESS ACCOUNTING* 37 (Shyam Sunder & Hidetoshi Yamaji eds., 1999).

66. *Id.*

the more innovative judgment-oriented environment that is and will be required under IFRS, a vast majority of Japan's current group of accounting professionals may not have the necessary skill set to make the transition to accounting under IFRS.

F. JAPANESE COMPANY DYNAMICS—A CULTURE OF LIMITED DISCLOSURE

The corporate dynamic referred to as the *zaibatsu* is another cultural aspect that will have a bearing on IFRS development in Japan.⁶⁷ By definition, the *zaibatsu* were large family-controlled vertical monopolies consisting of a holding company on top, with a wholly owned banking subsidiary that served as the *zaibatsu's* exclusive capital source,⁶⁸ and several industrial subsidiaries dominating specific market sectors, either solely, or through a number of subsidiary companies.⁶⁹ Because these *zaibatsu* groups were financially self-contained, they were neither obligated nor did they have a need to share financial information with anyone but the business entities contained within their *zaibatsu*.⁷⁰ This dynamic of self-sufficient and self-contained business entities bred an accounting and financial reporting culture of secrecy, exclusivity, and limited access to outsiders.⁷¹ *Zaibatsu* members therefore did not have to be concerned with compiling formal financial disclosures that would have to be made suitable for public viewing, consumption, and scrutiny. Information could be shared freely through informal channels between the entities within the *zaibatsu*.⁷²

At the end of the Second World War, however, there were forces set in motion to change this *zaibatsu* dynamic. The Allied Forces occupying Japan post-World War II were not receptive to the *zaibatsu*. The Allied Forces' perception was that *zaibatsu* were monopolistic and were a hindrance to free trade and competition.⁷³ As a result, the Allied Forces targeted the *zaibatsu* groups for

67. Rui Chen, International Accounting Standards: Future Adoption of IFRSS in Japan and the Japanese Accounting System pt. 3.4.2.1-3.4.4 (May 29, 2009) (unpublished degree thesis, School of Law, Business, and Economics, University of Bothenburg), available at https://gupea.ub.gu.se/bitstream/2077/21019/1/gupea_2077_21019_1.pdf.

68. COOKE & KIKUYA, *supra* note 37, at 18.

69. *Id.* at 18–19.

70. *Id.* at 19.

71. *Id.*

72. Lily H. Kim, Japan's Movement Towards Adoption of IFRS: Cosmetic or Economic Convergence? 14 (May, 2007) (unpublished honors thesis, New York University), available at http://web.archive.org/web/20100620172614/http://webdocs.stern.nyu.edu/old_web/emplibary/Lily_Kim_honors_2007.pdf.

73. COOKE & KIKUYA, *supra* note 37, at 20.

dissolution.⁷⁴ This dissolution effort occurred in 1947 with the passing of the Anti-Monopoly Act.⁷⁵ The hope was that by breaking up these *zaibatsu*, they would make Japan a more open economy.⁷⁶ The Allied Forces did not follow through completely with its planned dissolution, however, as it recognized the benefits that these *zaibatsu* provided to both the Japanese economy and to the government.⁷⁷ Indeed, the Allied Forces left many *zaibatsu* intact to ensure that Japan stayed economically viable,⁷⁸ such that they would not be vulnerable to communist forces in Asia.⁷⁹ Accordingly, remnants of the *zaibatsu* corporate model remain today as well as their financial reporting practices of exclusivity and limited disclosure.⁸⁰

The question then is how will the tenets of IFRS reconcile against this backdrop? Some of the main underlying IFRS principles are full and comprehensive disclosure and transparent and open communication of financial information.⁸¹ These principles are in direct conflict with many of Japan's past accounting and financial reporting practices. If IFRS is to truly succeed, Japan will have to see its way through overcoming some of these entrenched historical practices. Another outcome is possible. The concern expressed at this paper's outset is the possibility that Japan's foray into IFRS will result in some customized IFRS version that takes significant detours from the IASB'S IFRS version. The second concern is Japanese companies' IFRS application. Given IFRS's judgment-oriented interpretive aspects, will Japanese companies apply the provisions as intended or will the prior culture of financial secrecy and limited or selective disclosure ultimately rule? A possible outcome here is that Japanese companies will adopt IFRS only up to the point that it does not transgress into areas that are contrary to entrenched practices that have been adopted over years of accounting and financial reporting history. This is a plausible outcome, particularly given the evidence that even now, Japan's publicly listed companies seem to have a penchant for limiting disclosure and for being less than forthcoming with financial information.⁸²

74. COOKE & KIKUYA, *supra* note 37, at 20.

75. *Id.*

76. *Id.*

77. *Id.* at 21.

78. *Id.* at 92.

79. *Id.*

80. *Id.* at 40.

81. *IFRS for SMEs—U.S. GAAP Comparison Wiki*, AICPA IFRS Resources, <http://wiki.ifrs.com/Concepts-and-Pervasive-Principles> (last visited on Feb. 16, 2013).

82. COOKE & KIKUYA, *supra* note 37, at 155.

G. REGULATORY CHANGES OVER TIME—BUT WILL THEY BE ENOUGH?

Today, the Japanese accounting and regulatory framework looks a lot different than it did back in the late 1940s and early 1950s. Over time, Japan's accounting and financial reporting framework has evolved. Interestingly, Japan's evolved structures bear striking resemblances to those in the U.S. In looking at the literature on Japan's thought process in making these changes, what is evident is a realization that change is necessary to keep Japan moving forward and, what they perceive to be, in step with the world at large.⁸³ The question that remains is, are these changes substantive or are they merely cosmetic?⁸⁴ A directed change in form does not necessarily change cultural practices that may have become entrenched over time.

Generally speaking, Japan's new framework is one where the government maintains oversight, but the actual accounting standard-drafting and the operational functions have been delegated to private sector agencies that the Japanese have created to oversee the process. Additionally, Japan has relinquished the accounting certification process to the JICPA, perhaps in recognition that greater numbers of accountants with a more dynamic skill set will be needed to move forward in the pending IFRS environment. In July 2000, the Japanese established the Financial Services Agency ("FSA").⁸⁵ The FSA reports directly to the Minister of Finance and is responsible for Japan's banking, securities exchanges (which includes publicly held companies), and the insurance industry.⁸⁶ Established within the FSA is the Certified Public Accountants and Auditing Oversight Board ("CPAFOB"), which has oversight responsibility over auditing and public accountant professionals⁸⁷ (previously the MOP was tasked with these responsibilities).⁸⁸

The Japanese have made the most significant changes in the drafting of accounting standards. In 2001, the Japanese established the Financial Accounting Standards Foundation ("FASF"),⁸⁹ which is

83. See generally *History and Background: Development of CPA Profession*, JAPANESE INST. OF CERTIFIED PUB. ACCOUNTANTS, <http://www.hp.jicpa.or.jp/english/accounting/history/development.html> (last visited Feb. 9, 2013).

84. Kim, *supra* note 72.

85. See FINANCIAL SERVS. AGENCY, <http://www.fsa.go.jp/en/about/pamphlet.pdf> (last visited Feb. 1, 2013).

86. *Id.*

87. *Id.*

88. See generally COOKE & KIKUYA, *supra* note 37, at 99.

89. *Accounting Standards*, JAPANESE INST. OF CERTIFIED PUB. ACCOUNTANTS, <http://www.hp.jicpa.or.jp/english/accounting/standards/index.html> (last visited Feb. 9, 2013).

the entity that now has the responsibility over Japan's accounting standard drafting.⁹⁰ Japan's Accounting Standards Board ("ASBJ"), which acts under the FASB's auspices, actually develops accounting standards in Japan.⁹¹ (By way of comparison, the ASBJ is similar to the Financial Accounting Standards Board, which is the U.S. equivalent tasked with drafting U.S. accounting standards.)⁹² Additionally, the Japanese have made legislative changes to its laws that govern publicly held companies. The Securities and Exchange Law, referred to earlier, has been supplanted by a new set of provisions: the Financial Instruments and Exchange Act ("FIEA"),⁹³ which was enacted in 2006.⁹⁴ The FIEA's purpose, generally speaking, is to facilitate a continued evolution in Japan's accounting and financial reporting practices from what it had been previously.⁹⁵ The FIEA calls for more frequent disclosure from publicly held companies.⁹⁶ Among other things, under the FIEA, publicly listed companies in Japan have to file quarterly financial reports for fiscal years beginning after April 1, 2008.⁹⁷ This is a change from the previous practice where the Japanese were required to file public financial statements only once a year.

Finally there is the Japanese Institute of Certified Public Accountants, the professional organization tasked with oversight over Japan's certified public accountants.⁹⁸ Under the prior framework, JICPA's role was intentionally limited to areas that did *not* involve actual input on either auditing or accounting standards.⁹⁹ "The role of the JICPA in setting standards has become more important because of continued international pressure and forces encouraging deregulation in Japan. The JICPA is now authorized to decide on the

90. *Accounting Standards*, JAPANESE INST. OF CERTIFIED PUB. ACCOUNTANTS, <http://www.hp.jicpa.or.jp/english/accounting/standards/index.html> (last visited Feb. 9, 2013).

91. *Id.*

92. *See Facts About FASB*, FINANCIAL ACCOUNTING STANDARDS BD., <http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176154526495>, (last visited Feb. 11, 2013).

93. *See Financial Instruments and Exchange Act*, FINANCIAL SERV. AGENCY (2013), <http://www.FSA.go.jp/en/policy/fiel/index.html>.

94. *Id.*

95. *Id.*

96. *New Legislative Framework for Investor Protection*, FINANCIAL SERV. AGENCY (Sept. 2006), <http://www.fsa.go.jp/en/policy/fiel/20061010.pdf>.

97. *See* Financial Standards Found, *Japan—International Financial Reporting Standards*, E-STANDARDS FORUM, <http://www.estandardsforum.org/japan/standards/international-finaical-reporting-standards> (last updated May 2010).

98. *See generally* JAPANESE INST. OF CERTIFIED PUB. ACCOUNTANTS, <http://www.hp.jicpa.or.jp/english/> (last visited Feb. 9, 2013).

99. COOKE & KIKUYA, *supra* note 37, at 95.

details of auditing standards.”¹⁰⁰ To be clear, auditing standards are distinguished from accounting standards. Auditing standards are the mandated protocols to which public accountants must adhere when performing an audit. But audits are integral to the accounting and financial reporting process. Additionally, in 2003, the Japanese amended their CPA Act, which expanded the role that CPAs would have in the accounting and financial reporting process.¹⁰¹ The amendments to the CPA Act were strongly influenced by the U.S. Sarbanes-Oxley Act of 2002.¹⁰² Thus, many of the amended CPA Act provisions are similar to the provisions found in the Sarbanes-Oxley Act. Overall, the amendments are designed to shore up some of the noted weaknesses in Japan’s accounting and financial reporting framework. Japan’s motivation in making such amendments came on the heels of significant accounting scandals perpetrated by some of Japan’s biggest companies at the time,¹⁰³ similar to how the Enron debacle was the precipitating event that motivated the Sarbanes-Oxley Act’s enactment.¹⁰⁴ In that same regard, among other things, Japan’s amended CPA Act now (1) prohibits an audit corporation from providing certain non-audit services to any audit client;¹⁰⁵ (2) requires audit engagement partners to rotate after serving for no more than seven years on that engagement;¹⁰⁶ and (3) calls for more auditor oversight with the creation of the Certified Public Accountants and Auditing Oversight Board.¹⁰⁷

In sum, over the years, Japan has been steadily evolving in its accounting and financial reporting regulatory framework. As mentioned above, the changes seem to be prompted by a number of factors from corporate scandals to the need to keep pace with a global environment that is moving in a different direction.¹⁰⁸ It will be interesting to see how Japan’s old and new will come together, with the old entrenched practices of the past coming into conflict with the new laws, regulatory regimes, and practices that are being prompted by a changing of the times. IFRS is a new direction that requires not

100. *See History and Background: Development of CPA Profession*, JAPANESE INST. OF CERTIFIED PUB ACCOUNTANTS, <http://www.hp.jicpa.or.jp/english/accounting/history/development.html> (last visited Feb. 9, 2013).

101. *Id.*

102. *Id.*

103. *Id.*

104. *See generally* First Interim Report of Neal Batson, Ct.-Appointed Exam’r, In re Enron Corp., (Bankr. S.D.N.Y., Sep. 21, 2002) (No. 01-16034), 05 CIV. 4079 (GBD), *available at* http://www.enron.com/media/1st_Examiners_Report.pdf (last visited Feb. 8, 2013).

105. *See History and Background*, *supra* note 100.

106. *See id.*

107. *See id.*

108. *New Legislative Framework for Investor Protection*, FINANCIAL SERVICES AGENCY 1–3 (Sept. 2006), <http://www.fsa.go.jp/en/policy/ficl/20061010.pdf>.

only a different approach to recording financial transactions but also a new mindset of openness, transparency, and receptiveness towards a guideline-based accounting regime, as opposed to a prescriptive approach to recording financial transactions. The lingering questions are not just if IFRS will come together, but what the end result will be if it does. Even if, on the surface, Japan appears to be a society moving towards IFRS, the deeper question will be what is actually happening on the front lines in each corporation that has to wrestle with a particular set of transactions that may require judgment or the application of a set of principles. What will the end result be in terms of financial reports? Will the end result be a set of financial statements that captures that company's true economic substance and financial position in accordance with IFRS as promulgated by the IASB? Or will the end result be something more prescriptive and "check the box"-like that is merely cloaked as IFRS? IFRS is an accounting regime where substance and form have to come together and work in concert. To Japan's credit, it does seem committed to at least shaping its regulatory landscape into the proper form. The lingering question is if adopting the form will also result in adopting the substance that was intended under IFRS.

IV. CHINA

The People's Republic of China is a country with a population of roughly 1.3 billion people.¹⁰⁹ Its GDP, which was \$7.3 trillion in 2011, is on the rise.¹¹⁰ China's capital markets include two Securities Exchanges, one in Shanghai and one in Shenzhen.¹¹¹ In 1992, there were 50 listed companies.¹¹² Today, there are nearly 1,500, with an approximate market capitalization of around \$3 trillion.¹¹³ For most of those companies, only a minority of shares actually trade publicly. The majority is still held by the state. Institutional investment levels are low relative to western securities markets. Only a small minority of the listed companies are audited by international audit firms.¹¹⁴ China, considered by many to be the next great economic and

109. *China's Population*, CHINABILITY, <http://www.chinability.com/Population.htm> (last visited Sept. 18, 2013).

110. *See Data by Country*, WORLD BANK (2013), <http://databank.worldbank.org/data/views/reports/tableview.aspx>; *See also* Steven Strauss, *Megatrend: China's GDP Will Exceed U.S. GDP in the 21st Century—Deal With It*, HUFFINGTON POST (Oct. 21, 2012, 2:56 PM), http://www.huffingtonpost.com/steven-strauss/China-gdp_b_1997436.html?view=print&co.

111. Paul Pacter, *An Accounting Revolution is Brewing in China*, FINANCIAL EXECUTIVE 14 (Dec. 2007), available at <http://www.iasplus.com/en/publications/migrated/pub1259>.

112. *Id.*

113. *Id.*

114. *Id.*

military power in the world, is even thought by some to be the country that will supplant the United States as the world's dominant economic and military power.¹¹⁵ As a consequence, China's move to implement IFRS is perhaps born, not by a recognition that IFRS is a superior financial reporting regime, but by a recognition that IFRS implementation is a necessary piece in achieving China's goals of economic dominance on a global scale.¹¹⁶ Accordingly, the Chinese government, as well as other stakeholders, seem wholly committed to transitioning towards a more principles-based accounting regime and bringing it to successful fruition. But given China's economic and cultural history and its current "accounting infrastructure," the move to a more principles-based accounting regime presents some challenges. Whether and how China addresses those challenges will ultimately determine how successful China will be at its efforts.

A. CHINA'S ECONOMIC TRANSITION

The context in which China is endeavoring to convert to a more principles-based accounting regime¹¹⁷ is unique in that its IFRS adoption efforts are running on parallel tracks with China's transition from a primarily state-owned, state-run economy to a more market-oriented economy that is perhaps better suited for worldwide investment and participation in the global economy.¹¹⁸

Since 1978, The People's Republic of China ("PRC") has been undergoing a process of opening and restructuring. Opening has meant the gradual change in economic philosophy from isolationism to integration with the world economy. Restructuring involves a transformation of the economy to make it more competitive with the other major economic powers, changing it from a centrally planned economic system to something called "a socialist market economy."¹¹⁹

It is important to note that that the transformation does not mean that the PRC is now a market economy. The socialist market economy is a unique blend of socialism and capitalism; it is a large portion of socialism along with certain changes toward a market economy. The basic idea of the socialist market economy appears to

115. Robert Roy Britt, *Will China Become the No. 1 Superpower?*, LIVESCIENCE (Aug. 15, 2008, 7:44 AM), <http://www.livescience.com/5042-china-1-superpower.html>.

116. John L. Haverty, *Are IFRS And U.S. GAAP Converging? Some Evidence From People's Republic Of China Companies Listed On The New York Stock Exchange*, 15 J. INT'L ACCT. AUDITING & TAX'N 48, 54 (2006).

117. See *infra* pp. 121–22 (discussing how China did not adopt the version of IFRS as promulgated by the International Accounting Standards Board, but rather a modified or "customized" IFRS version referred to as Chinese Accounting Standard ("CAS")).

118. Haverty, *supra* note 116.

119. *Id.*

be preservation of the economy's socialist core, state firms and state banks, while making incremental changes in other areas. These changes include establishing markets, eliminating central planning, and allowing non-state-owned industry to prosper The cornerstones of the Chinese socialist economic system were and still are the state-owned enterprises ("SOE's").¹²⁰

It is within this context and with this historical backdrop that China seeks to forge its new accounting path toward a more principles-based accounting regime.

B. ACCOUNTING IN CHINA

In February 2006, the Chinese Ministry of Finance adopted an accounting regime that was to align itself closely with IFRS principles.¹²¹ The mandate stipulated that the only deviations from IFRS would be those born out of necessity "arising from unique characteristics of the Chinese economy that (in the eyes of the Chinese adopters) might necessitate such deviations."¹²² The resulting accounting regime was simply named Chinese Accounting Standards ("CAS").¹²³ Before delving deep into assessing China's conversion to CAS, it should emphasize that the People's Republic of China did not adopt the IFRS standards as promulgated by the IASB, but it instead adopted a customized version of those standards.¹²⁴ In-depth study of each of these deviations and how they affect financial reporting is an effort worthy of its own specific paper and perhaps a topic for another day. But for now, it is noted that at the outset, before even implementing these new principle based standards, China's new accounting standards are a customized IFRS version rather than the IASB promulgated version.¹²⁵ Here we look at some of the broader issues that will figure prominently into China's customized IFRS adoption efforts.

120. Haverty, *supra* note 116, at 51.

121. See Luo Ping, *China's Convergence to IFRS with Particular Respect to Its Banking Industry*, 17 FIN. MKT., INST. & INSTRUMENTS 43, 46 (Feb. 2008), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1088512#%23.

122. *Id.*

123. *Id.*

124. *Id.*

125. *An Overview of New PRC GAAP: Differences Between Old and New PRC GAAP and its Convergence With IFRS*, KPMG (Sept. 2011), <http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/New-PRC-GAAP-201109.pdf> (giving a complete listing of the differences between CAS and IFRS).

C. CHINA'S ACCOUNTING PROFESSIONALS

As noted in the previous Section regarding Japan, one of the keys to successful IFRS implementation in any country is a critical mass of competent and capable accounting professionals that can change from something familiar and clear, to something less familiar and fraught with a lot less certainty. The PRC will have significant challenges in this regard, given the demographics of its accounting professionals.

Similar to Japan, the first major hurdle China must overcome is the sheer lack of accounting professionals available to assist in IFRS implementation. "From 1949 until the late 1990s, China's accounting profession was effectively disbanded."¹²⁶ Chinese accounting firms in the 1990s had professional staffs that were either in their 70s or in their early 20s.¹²⁷ The shortage of qualified accountants in China is acute and has been estimated at 300,000, a figure almost certain to be conservative.¹²⁸ It is posited that CAS is at risk of stalling out due to the dearth of Chinese accounting talent needed to push this initiative forward and maintain its momentum.

To their credit, the Chinese seem committed to addressing this lack of accounting talent by committing resources to the problem. The Chinese institute of CPAs is striving to develop and implement training programs. They are also earnestly recruiting talented students to join the profession. But, as has been observed, "the talent and resource gap, however, is enormous and threatens to undermine many of the strides that China has made in development of its capital markets."¹²⁹ It is hard to fathom that, in a country with a population of over 1.3 billion people, there would be a shortage of anything related to human resources. But, when considering China's economic history, one can understand how a shortage of accounting talent can result. With the majority of enterprises being state owned, the need for and use of accounting information was controlled. The result was "old guard" accounting professionals who were merely "checking the box" for its state-owned enterprises. Now, the fallout leaves China in a bind as it tries to move forward in its new market-oriented economy, which requires not only a dramatic increase in accounting talent but accounting professionals who now must approach the accounting and financial reporting in a whole different manner.

126. Stephen Chipman, *Accounting Exec: 'Improve Chinese accounting ranks,'* FIN. EXEC. 17 (Dec. 2007), available at <http://www.iasplus.com/en/publications/migrated/pub1259>.

127. *Id.*

128. *Id.*

129. *Id.*

D. THE USE OF JUDGMENT

Prior to the Chinese MOF promulgating the IFRS-based CAS, the regime then in place was quite different. Under the old regime, financial statements were prepared for government use rather than for the individual investor.¹³⁰ Because the use of and the need for financial statements had a narrow purpose in China's prior economy, the accounting regime then in existence was crafted for this narrow purpose. Consequently, the end result was an accounting regime that was prescriptive and rules-oriented, rife with bright-line tests and quantified regimented criteria that dictated the appropriate accounting treatment for any given financial transaction.¹³¹

The financial statement preparers under China's old accounting regime rarely had to make judgment calls when considering the accounting treatment for a particular transaction. Accordingly, as CAS continues to matriculate its way into the Chinese economy, the Chinese financial statement preparers will have to let go of the supporting handrail mentality that was present under the old accounting regime and get comfortable with a new environment where there is less certainty and where the use of more judgment and assessment will be required.

Accordingly, China's challenge with the accounting profession is twofold. The first challenge is a general dearth of overall accounting talent on hand to help implement the transition to IFRS. The second challenge is the particular background of those accountants that will be at the forefront of the transition process. China's ability to reach a critical mass of accounting professionals and getting those professionals to "switch over" to a new way of thinking will be key to China's success. It will take some time to see how these competing dynamics ultimately affect IFRS development in China.

E. ENFORCEMENT AND REGULATION—ADJUSTING THE MINDSET

A key component in any regulatory regime, but especially accounting, is consistent, uniform, and even handed enforcement of the accounting rules. The IFRS-based CAS will be faced with new and unique challenges in this regard. As mentioned above, prior to China's phasing into a more market-oriented economy, most companies in China were state-owned enterprises, which were primarily regulated by the China Securities Regulatory Commission

130. Haverty, *supra* note 116.

131. *Chinese Accounting Reform: Towards A Principles-Based Global Regime*, ICAS 5 (Jun. 2010), available at <http://icas.org.uk/chineseaccountingreform/>.

("CSRC").¹³² Consequently, companies either primarily or exclusively government owned were being regulated by a Chinese governmental agency: the Chinese government regulating itself. This depiction may be an over simplification, but in essence, this is the dynamic. Accordingly, prior to China engaging in its transition to a more market-oriented economy, the CSRC's role was limited and perfunctory at best.¹³³ By contrast, in this new market-oriented economy, coupled with a new accounting regime, the CSRC's role is expected to both grow and change dramatically.

As Chinese financial statement preparers wrestle with the principles-based tenets of CAS, the Chinese regulatory body tasked to oversee these market oriented and publicly held companies will also be facing these same challenges from the compliance side. The CSRC will be forced to use the same judgment and principles-based assessments in ruling on the propriety of a company's accounting treatments that the company itself was required to use in recording the transactions in the first place. Again, with no bright-line tests to use as a basis by which to judge, there is a level of "open-endedness" to the financial statement preparation/regulation dynamic that will have to be addressed and worked through. And here is where the unanswered questions lie.

What happens when the financial preparer's principles-based judgment diverges from that of its regulator? The most likely result will be that the corporation will have to amend its treatment to conform to the regulator's interpretation. If this starts to happen, how will this affect the notion of *one* worldwide set of global accounting standards? Or will this even be an issue?

The bottom line is that the CSRC will have to adjust to the more principles-based accounting regime, just as the financial statement preparers will have to. A plausible outcome is that, as both preparers and regulators become more familiar and comfortable with the principles-based tenets of the IFRS-based CAS, both preparers and regulators will find the comfort that comes from repetition. But the question will be how smooth the transition will ultimately be. And will issues and differences between regulator and preparer be so acute as to either derail or slow the process considerably?

Not surprisingly, the IASB envisions these issues will be resolved by both parties embracing IFRS's fundamental tenets.¹³⁴ Where transactions that have no clear-cut accounting treatment arise, the

132. CHINESE SEC. REGULATORY COMM'N, <http://www.csrc.gov.cn> (last visited Sept. 26, 2013).

133. Haverty, *supra* note 116.

134. *Chinese Accounting Reform: Towards A Principles-Based Global Regime*, ICAS 13 (June 2010), available at <http://icas.org.uk/chinesecaccountingreform/>.

IASB's hoped-for approach is that both the firm and the regulator will approach each transaction with regard to the transaction's economic substance. The regulator, when assessing whether the accounting treatment in question comports with IFRS, focuses on whether the transaction comports with the applicable accounting standard's underlying principle and therefore captures the transaction's "economic substance." This changed approach will be a different paradigm for both the regulator and corporation alike. Their collective ability to embrace this new approach will go a long way toward IFRS's successful implementation in the People's Republic of China.

F. SHAREHOLDER ACTIVISM

Another dynamic that is not prominent now but could become significant is the prospect of shareholder activism and its potential role in shaping the financial accounting and reporting landscape. As mentioned above, when Chinese companies were primarily state-owned, the primary user of corporate financial information was the Chinese government.¹³⁵ But as corporate ownership spreads to individual investors and private institutions, such as pension funds, insurance companies, and mutual funds, those institutions may have an impact on the nature, types, breadth, and depth of financial disclosure that these companies will be required and asked to make. We've seen similar shareholder activism in the United States with U.S. GAAP, where devices such as shareholder proposals and proxies have affected disclosure practices, such as salary, stock options, director selection, and corporate policy decisions.¹³⁶ It only stands to reason that with the market as a whole instead of just the Chinese government being major stakeholders, the market will want to have some say over the corporations in which it has a financial stake. Accordingly, questions hover as to whether and how this dynamic will affect the stated goal of *one* "Worldwide Set of Global Accounting Standards."¹³⁷

G. CORPORATE GOVERNANCE

"A key component of China's corporate governance reform is the privatization of state-owned enterprises ("SOE"). The restructuring of SOEs, which started in the 1980s, has seen more than

135. Pacter, *supra* note 111.

136. See Randall S. Thomas & Kenneth J. Martin, *The Effect of Shareholder Proposals on Executive Compensation*, 67 U. CIN. L. REV. 1021 (1999).

137. INTERNATIONAL ACCOUNTING STANDARDS BOARD, *supra* note 7.

eighty percent of SOEs being transformed into corporate entities under the company law to facilitate listing on the stock exchanges. More than 1,200 enterprises have raised funds through initial public offerings (“IPOs”) and sought subsequent listing on one of China’s two stock exchanges. The State, however, still holds a majority of the shares in the listed companies. Data shows that in 2001, the state held an estimated sixty percent.”¹³⁸

It has been observed that the SOEs, in the process of becoming private enterprises, face a number of governance challenges. Many still carry on the practices of the state-dominated decision-making regime. They tend to have complex and opaque corporate ownership structures, overlapping bodies of control, management teams with continuing links to the Chinese government, and reporting practices that are more often focused on meeting the needs of the major shareholders (i.e., the state) rather than the investors’ needs.¹³⁹

These remnants from the previous economic structure could put a drag on some Chinese firms. In spite of the People’s Republic of China showing a strong interest in moving its nation toward a version of IFRS, it is plausible that firms that retain old structure will likewise continue its accounting practices in a “business as usual” manner, clinging to the prescriptive accounting practices of the past instead of embracing and engaging in the newly prescribed CAS. Of course, the counterargument is that, by all accounts, the Chinese government has shown receptiveness toward converting to IFRS. It would stand to reason then that any enterprises that remained under government control would be mandated to convert towards the more principles based CAS.

H. FAIR VALUE ACCOUNTING

When China enacted its IFRS-based CAS, the Chinese MOP elected to omit certain provisions altogether, including *International Accounting Standard 39—Financial Instruments: Recognition and Measurement*, which requires that financial assets be recorded at fair value instead of the often preferred approach of historical cost.¹⁴⁰ The desire to record assets at historical cost versus fair value is particularly acute in the banking sector, where loan portfolios can comprise the bulk of a banking concern’s financial assets.

The fair value accounting issue was prominent during the

138. *China Corporate Governance Survey*, CFA Institute 3 (CFA Institute, Apr. 2007), available at <http://www.cfapubs.org/toc/ccb/2007/2007/3>.

139. Pacter, *supra* note 111.

140. *IAS 39 Financial Instruments: Recognition and Measurement*, DELOITTE GLOBAL SERVICES LTD., <http://www.iasplus.com/en/standards/standard38> (last visited Sept. 18, 2013).

financial crisis of 2008, where many banks were forced to write down their assets to a fair value measurement. However, banks resisted doing so, fearing that such disclosure would unnecessarily “spook” their customer base and cause a run on the banks. Many banks were adamant about not reporting using the fair value approach. Instead of trying to navigate around this approach, China has simply elected not to include those provisions in the set of provisions comprising CAS.

China’s omission of an important IFRS provision highlights a problematic issue regarding the original premise of “One Worldwide Set of High Quality Global Accounting Standards.” The ideals of comparability and efficiency are compromised when one country has, for instance, adopted the fair value accounting requirements under IAS 39, and another country, China in this case, has not. An investor trying to choose between investing in banks resident in two different countries where the varying accounting treatments are practiced would then have one of the following choices: (a) somehow try to reconcile the varying accounting treatments between the two concerns; (b) do not reconcile the varied accounting treatments but try to factor the varied accounting treatments into their investment decision, (for example, the investor may feel that the bank that has recorded its loan portfolio assets at fair value gives more accurate and “reflective” information related to that bank’s financial position and may therefore feel more comfortable investing in that entity compared to a bank that did not record assets at fair value); or (c) choose between two investment alternatives where the accounting treatments for assets or loan portfolios are the same, giving the investor a true comparison basis.

The prior scenario illustrates one of the potential fundamental problems that come with the notion of one worldwide set of global accounting standards. The standard will only work as contemplated *if* the end product is truly *one* worldwide set of global accounting standards. As countries continue to adopt these global accounting standards, there will be continued “customizations” to fit local cultural, demographic, and regulatory norms. To be fair, it is not clear whether the “customizations” will be so significant that financial statement comparison from country to country is compromised or minor enough that the “essence” of the financial statement presentation is well within IFRS guidelines. The extent, breadth, and depth of these customizations are what will determine whether or not the end result is truly one worldwide set of global accounting standards or a many different variations on the same theme.

V. RUSSIA

The 1992 breakup of the Soviet Union ushered in a new era for Russia, setting it on a different trajectory in terms of how its economy would be structured and what the driving forces behind its economic growth would be.¹⁴¹ The 1992 breakup changed the Russian economic system from a planned economy to a more market-oriented economy. Where formerly the Russian government was the primary economic driver, the new market-oriented economy would have to stand on its own. The time-honored economic principles of supply and demand would be the new forces behind the Soviet economy.¹⁴²

Change takes time, however, and it will be some years before Russia fully transitions from a planned economy to a fully market-oriented economy. Although the changes are happening presently, many remnants, practices, and habits from the prior planned economy still exist. It is those remnants, along with other factors, that are influencing Russia's transition (or lack thereof) to a fully committed IFRS-adopting country.

A. THE RUSSIAN ACCOUNTING REGIME—PAST AND PRESENT

1. *Russia's Current Accounting Practices*

After the 1992 Soviet Union break up, Russia was looking to find its way with its transformed government and the new free-market economic principles at its disposal.¹⁴³ Part and parcel to the transition process was Russia's adoption of a new financial accounting and reporting regime.¹⁴⁴ IFRS had existed for a while, and Russia certainly had the option of choosing to adopt IFRS in its entirety. But instead, Russia opted for a different approach and implemented an accounting regime referred to as Russian Accounting Standards ("RAS"),¹⁴⁵ which it adopted in 1994.¹⁴⁶ RAS is based loosely on IFRS.¹⁴⁷ So why did Russia not simply adopt IFRS in its entirety? The brief answer is that in 1994, there were (and still are) facets of the Russian business and accounting culture that would have made

141. Valeria Petrovets, Implementation of the International Financial Reporting Standards in Russia: Problems and Experiences 14 (Jan. 2006) (unpublished bachelor thesis, School of Business Economics and Law, Goteborg University), available at <https://gupea.ub.gu.se/bitstream/2077/1439/1/05-06-86.pdf>.

142. *Id.*

143. *Id.*

144. *Id.* at 16.

145. *Id.* at 21.

146. *Id.*

147. *Id.* at 20.

reconciling with the tenets of IFRS problematic.¹⁴⁸ To avoid having to address those issues, which would require Russia to modify some of its current business practices, the Russians avoided the issue by adopting a customized and less comprehensive IFRS version (i.e., the RAS).

2. *The Main Differences Between IFRS and Russian Accounting Standards*

Substance: As discussed above, the essence of the IFRS accounting and financial reporting regime is to capture the “economic substance” of financial transactions without using bright-line tests of form. Like many of the other pre-IFRS regimes, RAS is more prescriptive in nature: A “check the box” approach that is more attentive to bright-line form without much regard for economic substance.¹⁴⁹

Transparency: Conceived from its conceptual framework, IFRS looks for an open, forthcoming, and transparent accounting process. RAS, on the other hand, traditionally does not make transparency a priority. Russian businesses historically operated in a gray area, where company affiliations are done “off the books” to avoid tax and other legal implications. Accordingly, in the interest of keeping these affiliations under the radar, obfuscation and nondisclosure is the pervading practice in Russia, rather than full disclosure and transparency.¹⁵⁰

Comparability: Through the consistent application of well-developed accounting principles, IFRS strives for consistent financial reporting over different time periods. When accounting transactions are recorded consistently, financial statements can be compared between periods. By comparison, RAS do not lend themselves to comparisons, primarily due to the fact that RAS is subject to change in subsequent periods. It is possible, if not likely, that the accounting treatment for a given transaction will change between periods.¹⁵¹

3. *Motivations Behind Russia’s IFRS Conversion*

As with the other countries studied, Russia’s movement to IFRS appears to stem from Russia’s desire to remain relevant in the global landscape and to have access to capital worldwide. As IFRS is used more globally, potential lenders and investors seem to prefer IFRS as

148. See generally Petrovets, *supra* note 141.

149. *Id.* at 23.

150. *Id.* at 24.

151. Petrovets, *supra* note 141, at 24.

the accounting standard of choice for their investing targets.¹⁵²

Statistics show that of the 100 largest Russian companies, twenty-five percent use IFRS for their financial reporting in 2004, sixteen percent use U.S. GAAP, thirty-eight percent use Russian Accounting Standards, and twenty-one percent use managerial accounting.¹⁵³ IFRS is used most by companies that work with foreign entities, namely banks and other financial institutions.¹⁵⁴ The statistical data bolsters the assertion that access to capital (and not IFRS's superiority over some other accounting method) is the main driver behind Russian companies' conversion to IFRS. These statistics suggest that in the absence of some financial incentive for doing so, Russian companies might be inclined to choose the status quo and avoid both the logistical and intellectual costs involved with switching to a new accounting regime.

B. CULTURAL BARRIERS TO IFRS IMPLEMENTATION

It is a challenging prospect for any country to change accounting regimes. But countries like Russia pose special challenges to uniform IFRS adoption due to a number of factors that are categorized generally as "cultural" in nature.

1. *Russian Gray Businesses*

In Russia, it is common for people to own a number of companies that are affiliated with each other in fact but are not memorialized in legal formalities.¹⁵⁵ Many "internal" transactions are never officially recorded to avoid the possible adverse tax consequences that would stem from formalizing such affiliations.¹⁵⁶ When Russian business owners consider converting to IFRS, they are faced with the choice of disclosing illegal transactions, paying taxes from prior periods, and exposing themselves to possible fines.¹⁵⁷

Wholesale IFRS adoption depends on the Russian business owners' willingness to move forward with IFRS in the face of these possible adverse consequences. A cynic might suggest that Russian business owners would be reluctant to convert to IFRS in light of the possible adverse consequences and might further suggest that these Russian business owners that do operate "gray businesses" would

152. Petrovets, *supra* note 141, at 33.

153. *Id.*

154. *Id.*

155. *Id.*

156. *Id.*

157. *Id.*

convert to IFRS only when or if the possible benefits of converting outweighed the possible costs. Because most gray business owners do not rely on foreign capital as an integral part of operation, the incentive to convert, at this point, is nonexistent.

2. *Russian Infrastructure*

Perhaps taken for granted in the West, in Russia, the matter of “computerization,” or lack thereof, may factor negatively in Russia’s IFRS adoption. For every computer in Russia, for example, there are twenty-six in the United States.¹⁵⁸ Only ten percent of Russian families have personal computers.¹⁵⁹ In Moscow, Russia’s capital, the number is a bit higher at thirty-two percent.¹⁶⁰ But for those who have computers, eighty-nine percent have never used the internet.¹⁶¹ Only five percent have the opportunity to use the internet on a regular basis. Some experts believe that Russia might need twenty-five to thirty years to overtake the West in information technology.¹⁶² These statistics relate to IFRS adoption because a big part of adopting, learning, and implementing IFRS rests upon information and access to it. For example, fair market value assessments for assets and liabilities hinge on the ability to access comparable market data. If a society as a whole is not adequately plugged into a constant stream of information, it is plausible that this overall lack of information access will have an impact on both IFRS adoption and implementation.

3. *Auditors*

The relationship with and the leverage Russian companies have over their auditor can affect IFRS development. Russian corporations see their public accountants as more than just an outside entity that audits the books and records.¹⁶³ Public auditors are seen as trusted business advisors and consultants.¹⁶⁴ Russian companies have been known to switch their public accountant if the company cannot or does not receive the kind of help they expect from their public accountants.¹⁶⁵ With this type of relationship, the client/company can

158. Petrovets, *supra* note 141, at 26.

159. *Id.*

160. *Id.*

161. *Id.*

162. *Id.*

163. Petrovets, *supra* note 141, at 40.

164. *Id.*

165. *Id.*

influence financial reporting by recording financial transactions based on preference rather than based on what would be appropriate under IFRS. Auditors will likely acquiesce to the corporation's will rather than risk losing a client over accounting treatment disagreements.

In all fairness to Russian companies, U.S. corporations had a similar dynamic with its publicly held companies. The most publicized relationship where auditor integrity was compromised was Enron and its relationship with the now-defunct Arthur Andersen LLP, which led to one of the most complex financial accounting scandals to date.¹⁶⁶ Partly in response to the Enron scandal, the United States enacted the Sarbanes-Oxley act which, among other things, made the relationship between an issuer and its auditors a more objective and arm's length one such that the public auditor can more effectively and objectively assess whether a company's financial statements fairly depict a company's financial positions.¹⁶⁷ However, no similar Act exists in Russia. Nor does it appear that "gatekeeper" breakdowns are as much of a concern in Russia as they have been in the United States. It is logical to conclude then that if the Russian companies themselves are not fully committed to proper IFRS implementation, the Russian auditors would not be the factor that forces the issue.

C. THE COMPANY PERSPECTIVE

As mentioned above, Russian companies that are or will adopt IFRS appear to be doing so more for the financial benefits that come with transitioning to IFRS rather than because IFRS is a superior as a financial accounting and reporting regime.¹⁶⁸ The major benefit of adopting IFRS is that Russian companies will have access to foreign capital because a large bulk of foreign lenders and investors prefer IFRS over local accounting regimes, RAS in this instance.¹⁶⁹ Also, as discussed above, there exists a disincentive for many Russian companies that engage in the practice of big businesses to convert to IFRS due to the competitive disadvantage that might result from converting.¹⁷⁰ Whether a company transitions to IFRS and whether they do so in a wholly embraced and forthcoming fashion may

166. See Final Report of Neal Batson, Court-Appointed Examiner, *In re Enron Corp.*, 2005 WL 1185804 (Bankr. S.D.N.Y., Dec. 13, 2004) (No. 05-16034), available at http://www.concernedshareholders.com/CCS_ENRON_Report.pdf (last visited Feb. 8, 2013).

167. See Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, Title II: Auditor Independence, 116 Stat. 745 (2002), available at <http://www.gpo.gov/fdsys/pkg/PLAW-107publ204/pdf/PLAW-107publ204.pdf>.

168. Petrovets, *supra* note 141, at 31.

169. *Id.* at 23.

170. *Id.* at 38.

depend on how that company is situated. If a company wants have access to foreign capital, it may be more inclined to embrace IFRS fully, whereas a company whose business is more local in nature may not want to give up the competitive advantage derived from its gray business practices.

D. HOW RUSSIA IMPLEMENTS IFRS PRESENTLY

Regarding the Russian companies that do employ IFRS, serious questions exist about the quality of those companies' financial statements. Russian companies employ IFRS in one of two ways: either "transformation" or "converging." With transformation, IFRS financial statements come about via a two-step process. First the financial statements are prepared under the existing RAS. Those statements are then transformed to comport to IFRS.¹⁷¹ The problem with this process is twofold. The first problem is the underlying source documents used to prepare IFRS comports financial statements. As discussed above, RAS is a less than standardized, consistent, transparent process to begin with. When the underlying source documents are of questionable quality, it is reasonable to conclude that the end product, even though prepared under IFRS, will be of questionable quality as well. Second, perhaps due to the lack of familiarity with IFRS, it can take companies up to six months to complete the conversion process from RAS to IFRS.¹⁷² The lack of timeliness alone reduces the financial statement's usefulness, even if the statements happened to be prepared well under IFRS.

Additionally, by some estimates, the error margin for the transformation process ranges between ten percent to fifty percent.¹⁷³ If the end result via the transformation process is misstated by as much as fifty percent, there is no doubt that any utility that may have been gained by reporting the financial information under IFRS is lost.

Converging, on the other hand, involves recording financial data simultaneously using the two different methods: one using RAS and the other using IFRS. Recording financial information this way is deemed more reliable but much more expensive due to the added administrative burden of reporting financial transactions using two different accounting methods.¹⁷⁴

171. Petrovets, *supra* note 141, at 26.

172. *Id.* at 39.

173. *Id.* at 26.

174. *Id.* at 27.

VI. HOW TO ENCOURAGE UNIFORM IFRS ADOPTION

From what has been set forth in this paper, the notion of “One Worldwide Set of Global Accounting Standards” is a challenging proposition. We have looked at 3 countries and have highlighted a myriad of issues that can and have posed obstacles for the uniform adoption of IFRS. Multiply those issues by the 132 countries that have adopted IFRS as of this writing’s publication and there could be as many IFRS variations as there are IFRS-adopting countries. This brings us back to the primary concern.

There is a worldwide problem with the global adoption of one uniform set of accounting standards. To address this problem, we must first go back to the stated goal of the IFRS project: “One Worldwide Set of Uniform Global Accounting Standards.” Note that the stated goal is *not* “One Worldwide Set of Uniform Global Accounting Standards customized so much so on a local level such that the benefits of comparability and uniformity are frustrated.” If the stated goal is in fact “One Worldwide Set of Uniform Global Accounting Standards,” then the next natural step would be to have a mechanism in place that would force, motivate, or incentivize each country to be on the same page. But is that even a possibility? What follows are suggestions that may be extreme in their premise, but by proposing solutions that may seem extreme, the hope is to highlight the problem’s enormity and complexities.

A. ONE CENTRALLY LOCATED INTERPRETIVE AND ENFORCEMENT

As discussed above, the IASB is the governing body that promulgates IFRS. But the IASB has no regulatory or jurisdictional authority over any of the countries that adopt IASB. As a result, there is no regulatory mechanism that ensures that any particular country adopt IFRS standards as a whole. Nor is there any regulatory mechanism in place that ensures that, even when the standards are adopted in their totality, the standards are being applied or interpreted as intended by the IASB. Said a different way, even if all countries are using the same words, they may mean different things once interpreted and applied locally.

A suggestion to offset this dynamic then would be to reconfigure the accounting regulatory regime in such a way that IFRS adoption, interpretation, and application on a global level would stem from one centrally located source. For example, the IASB could serve as that one source. Local regulatory bodies, instead of acting autonomously, would act in concert with the IASB and would defer to the IASB on

any IFRS adoption, interpretation, or application issues. The theory behind this idea is that if everyone is working from one centrally located source, that “centrality” would lend itself to the worldwide uniformity that is being sought by this global effort.

1. *The Sovereignty Problem*

The biggest challenge to this proposal is the matter of sovereignty. Because there is no legal requirement forcing a country to adopt IFRS, any country’s decision to convert to IFRS would be voluntary. There would be no enforcement consequence if a particular country chose to go in a direction that veered from the IASB’s position on a particular accounting matter. There does exist a body referred to as the IFRS Interpretations Committee,¹⁷⁵ which assists the IASB in improving financial reporting through timely identification, discussion, and resolution of financial reporting issues.¹⁷⁶ The Interpretations Committee lends interpretive guidance. Those from any jurisdiction who are involved with the financial reporting process are encouraged to refer issues to the Interpretations Committee when they believe that divergent practices have emerged.¹⁷⁷ But again, this Interpretations Committee only has the power to provide guidance where guidance is being sought. It does not have the authority or leverage to force a particular accounting treatment if a country decides to veer away from the IASB’s position on accounting treatment on a particular matter.

In an ideal world, provinces would embrace this collaborative arrangement wholeheartedly in the spirit of transparency and a desire for a sound global accounting framework to which all participating countries could adhere. But in reality, it would likely take more than that to get large scale buy in.

2. *Incentive-Based Participation*

Perhaps the most effective way to ensure uniform adoption of IFRS would be to make participation *incentive based*. Money tends to be a good motivator to incentivize behavior. Participation in IFRS could be a prerequisite to gain access to international capital markets. For example, if Japan, China, and Russia were participating members, working cooperatively with the IASB, those countries

175. See Due Process Handbook for the IFRS Interpretations Committee, IFRS FOUNDATION (Dec. 2010), available at <http://www.ifrs.org/How-we-develop-Interpretations/Documents/DueProcessIFRSInterpretations2011.pdf>.

176. *Id.* at ¶ 1.

177. *Id.* at ¶ 19.

would be required to participate in this collaborative IFRS regulatory regime and therefore defer to the IASB as the final authority on all matters related to accounting and financial reporting to gain access to each other's capital markets.

An incentive-based participation system seems to be the "cleanest" means by which worldwide participation could be achieved. A critical mass of key countries, such as the countries discussed in this paper, is all that would be required to gain traction. The remaining countries would likely follow suit or risk being left out of access to the global capital markets. But again, the key is buy-in from the more dominant economic powers. Is this proposal a plausible one? The better question is how committed those on the front lines are to their vision? And how committed are they to persuading the key players and key countries to fully embrace the vision behind International Financial Reporting Standards? As has been laid out in this paper, there are many moving pieces, all of which must come together in an orchestrated effort for IFRS to work on a global scale. Successful implementation of IFRS as the IASB envisioned depends on how committed countries are to resolve those issues.

VII. CONCLUSION

In conclusion, "One Worldwide Set of Global Accounting Standards" is an idea that sounds great in theory. This paper's goal was to take this theoretical idea and more closely examine how conception to fruition would work. Upon closer examination, it is evident that executing "One Worldwide Set of Global Accounting Standards" is an undertaking of enormous proportions, one that may take shape in some form but may ultimately fall short of its intended vision. With so many moving pieces and the localized context in which accounting and financial reporting occurs, "One Worldwide Set of Global Accounting Standards" is improbable. How close the world comes to this lofty goal depends on global buy-in and commitment. If the world reaches a critical mass of countries willing to commit to the effort and take concrete steps toward global buy in, then movement toward IFRS's stated goal may come closer to fruition. The solution I have proposed here of making deference to the IASB's version of IFRS a prerequisite to international capital market access could be the necessary galvanizing component that gives this effort momentum. But there are many dynamics that have to come together. It will be interesting to see how it all plays out. Only time will tell.