1. INTRODUCTION

As the world continues its movement towards an increasingly global economy, the conflicts and variances between different countries’ laws and regulations grow more obvious and important. One area in which countries have significant legal and regulatory differences is accounting standards. The accounting and disclosure requirements of many foreign countries differ considerably from those of the United States. These accounting differ-
ences often cause problems for parties trying to transact business in foreign nations. For example, parties wishing to list their securities on a foreign market must restate their financial data in order to comply with the foreign country's generally accepted accounting principles, and parties wishing to acquire a foreign corporation may need to expend considerable time and effort to reconcile the target company's accounting treatment with the acquiring company's domestic financial standards.

In recognition of these differences and in hopes of facilitating cross-border transactions, many countries expressed a desire to adopt international accounting standards ("IASs"). As a result, the United States and eight other industrialized nations formed the International Accounting Standards Committee ("IASC"). The IASC, composed of financial personnel from over eighty different countries and one hundred accountancy organizations, aims to develop and implement IASs. Although the committee does not have the strength of a regulatory body, it provides substantial authoritative support to the financial regulatory bodies of the world.

See IASC, The Need for International Accounting Standards (visited Nov. 15, 1999) <http://www.iasc.org.uk/frame/cen1 4.htm> (noting that statements prepared in countries with accounting differences lack comparability and therefore can cause additional preparation costs, impair comparisons between internal and external reports, impede effective financial analysis, lower the creditability of existing accounting reports, and cause companies to bear higher capital costs).


See Wilson Chu, Avoiding Surprises Through Due Diligence, BUS. L. TODAY, Jan.-Feb. 1997, at 8, 12 (noting that the acquirer will need to focus on a different country's accounting treatments, which will affect the buyer's ability to structure the deal).

See id. at 363 (comparing the IASC's power to that of the United States Financial Accounting Standards Board ("FASB") and noting that U.S. "accounting regulations have the same status for most US [sic] companies as IASC requirements have in the world in general; that is, compliance with them results from commercial pressure, e.g. from bankers, shareholders or other users"). However, publicly traded companies (in the United States) must comply with the laws promulgated by the Securities and Exchange Commission ("SEC") and these laws require that financial information be prepared in accor-

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In December 1998, the IASC completed a long awaited set of core accounting standards, with the intent that capital markets throughout the world would adopt these standards. Specifically, the IASC hopes that the applicable regulatory bodies will endorse the core standards so that all capital market participants will conform to such standards.

The United States claims to support the IASC's work and has indicated that it may recognize international standards. Yet, many commentators think that because the United States believes its accounting standards and regulatory system are superior to those of the IASC and other nations, the United States will refuse to adopt international standards.

dance with U.S. GAAP. See id. Furthermore, the SEC "recognizes 'substantial authoritative support' for the requirements of the independent [FASB]" and other advisory accounting bodies. Id.; see also Wipperfurth, supra note 1, at 17 (stating that the "SEC has been a firm supporter of FASB").

8 See IASC, Core Standards (visited Nov. 15, 1999) <http://www.iasc.org.uk/frame/cen3_5.htm> (discussing the IASC's agreement with the International Organization of Securities Regulators ("IOSCO") under which the IOSCO agreed to "recommend endorsement of IAS[s] for cross-border capital raising and listing purposes in all global markets"); see also infra Section 2.3.2 (description of the IOSCO).


10 See Mercado, supra note 4, at 346-47 (stating that the SEC made a statement on April 11, 1996 "confirming its support for the IASC's objective of developing accounting standards" to be used in financial statements for cross-border transactions).

11 See IASC Nears the Finish Line, BUS. EUR., Nov. 18, 1998, at 7 (stating that the United States is stalling and its lack of enthusiasm about the standards indicates that it may not accept the standards, and reporting that many Europeans believe the United States' lack of enthusiasm over the standards to be "motivated by self-interest"); id. ("The Americans have not yet accepted standards other than US [sic] GAAP because they do not want their dominance of world accounting standards diminished... They want to retain control over access to the world's largest source of capital.") (quoting Peter Zurbruegg, senior accounting manager at Swiss pharmaceutical group Roche); see also Glenn M. Reiter, International Securities Offerings—Recent Developments and Current Issues, 1997 INST. ON SEC. REG. 827, 863 (stating that the SEC is not "likely to accept IAS[s] on a broadscale basis"); Interview by Paul Rogerson with Sir Bryan Carsberg, IASC Secretary-General, in THE ACCOUNTANT, Oct. 1998, at 15 [hereinafter Interview with Sir Bryan Carsberg] (hinting that the United States expects its rules to become the world's standards); Wipperfurth, supra note 1, at 17 (stating that the SEC's conditions for acceptance of the standards "sound[] very much like its own rules" and that some cynics say that the SEC
The possibility that the United States will not support the standards is discouraging, because the success of the standards internationally may depend on U.S. support. Since the United States plays such a dominant role in the world economy and has such important capital markets, U.S. rejection of IASC standards may ultimately impair the growth of the world's capital markets and cross-border transactions.\textsuperscript{12}

This comment will discuss the present need for IASs in the global marketplace and the U.S. role in this process. Specifically, Section 2 will discuss the benefits of international standards and the development and current status of IASC standards; Section 3 will review U.S. efforts to make its regulations more compatible with international standards; Section 4 will analyze the factors that may hinder U.S. adoption of IASC standards, including the differences between IASC standards and U.S. standards, and will also address the skepticism about whether the United States will adopt IASC standards; Section 5 will evaluate the specific benefits that the United States will receive if it adopts IASC standards, discuss the perceived problems with the standards, and argue that the benefits of the international standards clearly outweigh the negative aspects of the standards; Section 6 will conclude by maintaining that the United States needs to confidently adopt the international standards as well as actively encourage other nations to adopt those standards.

2. DEVELOPMENT OF INTERNATIONAL ACCOUNTING STANDARDS

Over the past few decades the world has moved from nationalized economies to a growing international economy.\textsuperscript{13} Business would object to IASC standards “even if the IASC had adopted American accounting principles word for word”).

\textsuperscript{12} See Glenn Cheney, International Standards Fail to Stir U.S. Interest, ACCT. TODAY, July 27, 1998, at 14 (quoting Patricia McConnell, senior managing director at Bear Stearns and vice chairperson of the IASC, as stating that the SEC's rejection of the standards would be “the kiss of death”); Global Accounting's Roadblock, THE ECONOMIST, Apr. 27, 1996, at 79 (noting that the SEC is hindering the adoption of IASC standards by withholding its total support); IASC Nears the Finish Line, supra note 11, at 7 (acknowledging that “there are fears that lack of support from the US [sic] may undermine and ultimately bury the [IASC] project”).

\textsuperscript{13} See Ties that Bind, supra note 2 (observing that “there was a time when most shareholders in the world were American and they owned shares in US [sic] companies”); IASC, Statistics About National and Cross-Border Financing
organizations are increasingly breaking through national barriers and looking to international markets when making business decisions. However, most business organizations prepare financial data according to local accounting conventions that may be quite different from one country to another. Working with financial data from several different countries can be like working in several different languages. In recognition of the inconsistencies between financial languages, the idea of an international accounting standard developed. Upon review of the current issues facing investors and international corporations, it is clear that there is much to be gained by the implementation of an international standard.

2.1. International Standards Will Increase Growth in Capital Markets and Countries As a Whole

The adoption of international standards will increase investors’ confidence in capital markets, and as a result, will increase growth in these markets and in their respective countries. First, uniform accounting standards will strengthen disclosure requirements. Therefore, potential investors will have greater confidence that they can adequately evaluate the risk associated with potential investments. Second, uniform standards will give in-
vestors the ability to compare the position of potential investments to similar investments located in a number of different countries, thereby giving investors the ability to invest where the return is the greatest.

The increase in disclosure and comparability will bolster investors' confidence and prompt greater equity investments and more efficient financial markets. The growth in equity markets, in turn, will increase the growth rate of the countries where the financing occurs.

2.2. International Standards Will Save Investors and Business Entities Time and Money

In addition to prompting investor confidence, the use of international standards will immediately reduce the costs and time

mimum" to investors if they are not adequately informed. See id. The report also cites Stefan Seip, Head of Market Policy, Deutsche Börse, as advocating international standards, because unlike many countries' standards, international standards favor investors, not creditors. This preference encourages investor confidence and decreases market inefficiency. See id.

See id. (arguing that uniform accounting standards will strengthen comparability and therefore increase access to foreign capital markets (citing APEC's 1997 Annual Report)); see also Shigemitsu Sugisaki, Deputy Managing Director of the International Monetary Fund, The Benefits and Risks Associated with the Wider Integration of International Financial Markets, Address to the Oman International Economic Conference (Dec. 5, 1998), in International Monetary Fund, The Benefits and Risks Associated with the Wider Integration of International Financial Markets (visited Nov. 15, 1999) <http://www.imf.org/external/np/speeches/1998/120598.htm> (stating that the adoption of IASs will "encourage good practices and... allow financial markets to differentiate better among borrowers"); Mercado, supra note 4, at 348 (stating that international standards will allow for a "more systematic comparison of companies around the world"); Waller, supra note 1, at 15 (stating that under the current system, it is "difficult—if not impossible—to make sensible comparisons" between financial statements prepared in separate countries).

See Waller, supra note 1, at 15 (discussing the need for international comparability and citing an underwriter who states that "If in the international market you can enjoy much higher returns from information").

See Mercado, supra note 4, at 347; Waller, supra note 1, at 15 (reporting that in a survey of 52 business institutions, half of the parties interviewed said that their investing and financing decisions "were affected by accounting differences").

See IASC, IASC News Chronology 1998 (visited Nov. 15, 1999) <http://www.iasc.org.uk/news1998.htm> ("It is well known that those countries financing much of their investment through equities show higher rates of growth.") (quoting Stefan Seip, Head of Market Policy, Deutsche Börse, Remarks at the Forum on International Harmonisation, in Frankfurt, Germany (Dec. 6, 1998)).
commitment currently associated with international investments and transactions. Under the current system, an issuer wishing to list its securities on a foreign exchange or a party wishing to participate in a transaction in a foreign country (or with a foreign party) must restate its financial information in a manner that conforms to foreign standards or must reconcile its financial statements to foreign standards. This process can be time consuming and costly, particularly if a party is involved in transactions with parties from several different countries. The existence of financial reports prepared in accordance with different standards also makes it harder to compare reports, assess the value of certain investments and assets, and plan financial strategies. Furthermore, differences in accounting standards are often a stumbling block in mergers and acquisitions because, in addition to complicating valuation, the differences make due diligence more difficult.

If a set of IASs is available, a party wishing to participate in cross-border transactions will be able to prepare one set of financial statements and save the time and money currently expended to convert or reconcile its financial statements to other standards. This reduced transaction cost will make international investment more attractive and reduce the current barriers to entry, thereby promoting growth in international investment and business.

The problems of high transaction costs and the lack of comparability of financial statements prepared in accordance with different accounting conventions were recognized many years ago. As a result, in 1973, the IASC was formed to “respond to the . . .

23 See Pacter, supra note 13, at 17 (noting that the most obvious benefit of IASs is the savings of “not having to keep records in accordance with multiple sets of accounting rules”).

24 See Mercado, supra note 4, at 347-48; Chu, supra note 5, at 10 (noting that the buyer will need to focus on different accounting treatments and their affect on the buyer’s ability to structure the deal).

25 See Ties that Bind, supra note 2.

26 See IASC Nears the Finish Line, supra note 11.

27 See Chu, supra note 5, at 10 (warning that, when planning due diligence, the buyer and its counsel must recognize that there are currently no globally accepted accounting standards).

28 See Mercado, supra note 4, at 347-48.

29 See Waller, supra note 1, at 16 (stating that it is currently too expensive for many to compete in the international fund market); see also Pacter, supra note 13, at 17 (noting that IASs will increase access to capital markets and lower capital costs).
growing demand around the world for global, high-quality accounting standards that give transparency and comparability.”

2.3. The Development of IASs

When the IASC was formed, its goals were to develop IASs and “promote their worldwide acceptance and observance.” The IASC continues to work with the International Organization of Securities Commissions (“IOSCO”) to achieve this goal, but this task has not been easy. One of the biggest problems that the IASC faces is opposition from the United States.

2.3.1. The IASC

The IASC is an independent, private sector body that was developed in 1973 by representatives from the United States and eight other industrialized nations. The purpose of the IASC is to develop a uniform set of accounting standards to be used in financial statements utilized in all cross-border transactions and international securities offerings. The committee is composed of key financial players from the represented countries, and is highly regarded as an advisory authority, but it “isn’t an official regulatory body, . . . [so it] has no real enforcement authority.” The IASC has agreed to submit IASs to the IOSCO for approval, with the understanding that if the standards are suitable, the IOSCO members (who do have enforcement authority) will implement the standards worldwide.

31 Id.
32 See Ties that Bind, supra note 2 (stating that a preliminary agreement was reached between IOSCO and the IASC to establish international standards).
33 See id. (stating that one influence on the IASC is that the United States is opposed to leaving standard setting to the IASC).
34 See John P. Redd, World’s Apart?—FASB Issues a Report That Analyzes U.S. and International Accounting Standards, INSIGHTS, Apr. 1997, at 19, 19; Wipperfurth, supra note 1, at 15 (noting that the IASC is supported by “big accounting firms, investment banks[,] and major stock exchanges”).
36 Wipperfurth, supra note 1, at 15.
37 See IASC, IOSCO Agreement (visited Nov. 15, 1999) <http://www.iasc.org.uk/frame/centl_6_1.htm>; see infra Section 2.3.2 (discussion of the IOSCO).
2.3.2. The IOSCO

The IOSCO is an international organization of securities regulators (including the United States Securities and Exchange Commission ("SEC"). The goal of the organization is to propose effective regulations, exchange information, promote the development of capital markets, establish regulatory standards, provide surveillance of international securities transactions, and assist in the enforcement of standards to ensure the integrity of capital markets.

In 1993, the IOSCO enumerated "the necessary components of a reasonably complete set of accounting standards (core standards) that would comprise a comprehensive body of [accounting] principles for enterprises undertaking cross-border offerings and listings," and stated in 1995 that upon the IASC’s completion of acceptable core standards, the IOSCO would "recommend endorsement of [the IASC’s standards] for cross border capital raising and listing purposes in all global markets." However, the IOSCO’s endorsement of the IASC’s standards is not guaranteed. First, an IOSCO accounting and disclosure committee will review the standards. If this committee finds the standards acceptable, it will recommend their endorsement to the IOSCO technical committee. The technical committee, which consists of regulators from each of the world’s sixteen largest securities markets (including the U.S. SEC), must unanimously approve the standards. The technical committee’s approval of the international standards will “trigger” national consideration, and possibly adoption (if the SEC approves).

39 Pacter, supra note 13, at 17-18.
40 See Reiter, supra note 11, at 856; Pacter, supra note 13, at 18 (“Is IOSCO endorsement pretty much a sure thing? Definitely not.”).
41 See Pacter, supra note 13, at 18.
42 See id.
43 See id.
44 See id.
45 See id.
2.3.3. IASC Core Standards—Set for IOSCO Approval

In December 1998, the IASC approved IAS 39, which represented the completion of the last standard of a set of core standards. As previously mentioned, the IOSCO will review these standards, and it has stated that it hopes to endorse a set of core standards for all international purposes. If the IOSCO (and in turn the U.S. SEC) accepts these standards, foreign corporations (at a minimum) will not have to convert to U.S. generally accepted accounting principles ("GAAP") before listing their securities in the United States. The IOSCO has been working closely with the IASC in its development of the standards and is apprised of the contents of the standards; yet, the IOSCO disagrees with some of the standards. Therefore, IOSCO approval is by no means certain.

However, the IOSCO's adoption of Disclosure Standards to Facilitate Cross-Border Offerings and Listings by Multinational Issuers in September 1998 is an encouraging sign. This set of disclosure standards would allow multinational issuers to prepare one non-financial disclosure document to be used in multinational capital markets. The standards are quite comprehensive; implementation of the standards will facilitate capital offerings in more than one jurisdiction at a time, enhance comparability of information, and help to reduce the costs of cross-border capital raising. These standards, therefore, will have many of the same characteristics and benefits as IASs, which may indicate that the IOSCO recognizes the importance of international harmonization and is indeed ready to adopt IASs. Another encouraging sign is that with the exception of a few major parties (mainly the

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47 See IASC Approves Standard, supra note 9.
48 See IASC Approves Standard, supra note 9.
49 See Interview of Sir Bryan Carsberg, supra note 11, at 15.
51 See id. at 10.
52 See id.
United States) IASC standards are largely accepted throughout the world.\(^\text{53}\)

2.3.4. Use of the IASC's Standards to Date

The current IASC standards are currently being used as a basis for national accounting requirements and as an international benchmark by governments and companies throughout the world.\(^\text{54}\) Many markets and countries throughout the world accept or require financial statements to be prepared in accordance with international standards, and many companies voluntarily prepare their statements in accordance with international standards.\(^\text{55}\)

Some companies prepare their financial data in accordance with international standards because the national regulatory body accepts the international standards.\(^\text{56}\) Others do so solely to pro-

\(^{53}\) See infra Section 2.3.4.


\(^{55}\) See IASC, Stock Exchanges That Allow Companies to Prepare IAS Financial Statements (visited Nov. 15, 1999) <http://www.iasc.org.uk/frame/cen1_10.htm>. The following exchanges fully accept financial statements for foreign listed companies using IASs: Argentina (with a reconciliation to Argentine GAAP), Australia, Austria, Bangladesh, Belgium, Canada (under Quebec law, with advance permission and with a reconciliation to Canadian GAAP in the notes), Cayman Islands, China (PRC) (with some restrictions depending on class of shares), Croatia, Cyprus, Denmark, Egypt, Estonia, Europe, Finland (with some restrictions on what is considered a foreign country able to use IASs), France, Germany, Hong Kong (with a reconciliation to Hong Kong GAAP), Hungary, Italy, Japan, Jordan, Latvia (with some restrictions), Luxembourg (with some restrictions), Macedonia, Malaysia, Malta, Netherlands, Norway, Pakistan, Poland (with a reconciliation to Polish GAAP), Singapore, Slovakia, Slovenia, South Africa, Sweden, Switzerland, Tanzania, Thailand, Turkey, Ukraine, and the United Kingdom. See id. A spokesperson for the European Commission states that it plans to adopt IASs to foster “even-handed competition” throughout the European Community, and the governments of Germany and France have indicated that they plan to use IASs for domestic and international purposes. See IASC, European Commission Announcement (visited Nov. 15, 1999) <http://www.iasc.org.uk/frame/cen1_6 2.htm>. The World Trade Organization (“WTO”) and APEC have also offered their support. See APEC, supra note 18; IASC, World Trade Organisation Announcement, (visited Nov. 15, 1999) <http://www.iasc.org.uk/frame/cen1 6 5.htm>; see also Ties that Bind, supra note 2 (noting that the London Stock Exchange accepts financial statements prepared in accordance with IASC standards for foreign issuers, and many countries “have abandoned national standard-setting in favor of IAS[s]”).

\(^{56}\) See Pacter, supra note 13, at 15-16 (dicussing the countries that follow IASs without reconciliation).
mote shareholder confidence by making the company's value more transparent. The standards are also very helpful to developing countries that previously did not have their own set of standards. These countries often use the international standards as a model or adopt the standards completely.

The European Union also strongly supports the use of harmonized accounting standards. Members such as France and Germany are developing laws that allow domestic and foreign companies to use IASs for consolidated financial statements and many other European Union countries are expected to follow close behind.

Although many foreign nationals and U.S. companies are using IASs, the U.S. government has not been as receptive to these standards. This is discouraging because the ultimate success of these standards may depend on U.S. approval.

2.3.5. The Success of IASs Depends on U.S. Support

The United States is only one of the few countries that does not already accept the standards. However, the endorsement of the United States, as the source of the largest capital markets in the world, is critical to the success of the international standards worldwide. Most importantly, since the IOSCO technical

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57 See id. at 17 (citing statements made by Bayer and Union Bank of Switzerland who have both adopted IASC standards in order to simplify international comparisons and provide more transparency).

58 See Ties that Bind, supra note 2 (stating that Bangladesh and Macedonia require IASs for domestic and foreign companies; Jordan, Pakistan, Sri Lanka, and Zimbabwe accept IASs for domestic companies; and Hong Kong and increasingly, the rest of China, use IASs almost exactly).

59 See Pacter, supra note 13, at 15.

60 See id. at 15-16.

61 See infra Section 2.3.5.

62 See id.

63 See Interview with Sir Bryan Carsberg, supra note 11.

64 See Richard H. Rowe, An Overview of Certain Registration Provisions, Exemptions and Developments Under the U.S. Securities Law Governing Capital Formation, in NUTS & BOLTS OF FINANCIAL PRODUCTS: UNDERSTANDING THE EVOLVING WORLD OF CAPITAL MARKET AND INVESTMENT MANAGEMENT PRODUCTS 1998, at 89, 223 (PLI Corp. L. & Practice Course Handbook Series No. 1035, 1998) (stating that "the ultimate reaction of the SEC to the IASC standards will be a crucial factor in their efficacy"); Global Accounting's Roadblock, supra note 12, at 79-80 (stating that the SEC is hindering the development of IASC standards by withholding its total support); Ties that Bind, supra note 2 (reporting that "unanimous agreement is needed,
committee requires a unanimous vote to approve the core set of standards, the U.S. technical committee representatives must vote for the set of standards in order for the IOSCO to recommend them.65

If the standards are passed by the IOSCO, enforcement of the international standards will depend on the regulatory authorities in each country.66 However, many fear that lack of total U.S. support will "undermine and ultimately bury the entire project."67 Therefore, the United States, as a global leader, must actively promote regulations that will facilitate a global economy; otherwise the rest of the world cannot be expected to implement the regulations.

3. U.S. EFFORTS TO MAKE ITS REGULATIONS MORE COMPATIBLE WITH INTERNATIONAL STANDARDS

Despite the fact that the United States has not yet accepted IASC standards, the SEC, the Financial Accounting Standards Board ("FASB"), and Congress have recognized the importance of IASs and have expressed a commitment to the development and implementation of international standards.68 These efforts have led some commentators to believe that foreign issuers will soon

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65 See Wipperfurth, supra note 1, at 15.
66 See Interview with Sir Bryan Carsberg, supra note 11.
67 IASC Nears the Finish Line, supra note 11, at 7; see Wipperfurth, supra note 1, at 15 (quoting Patricia McConnell, senior managing director at Bear Stearns & Co. and vice chairperson of the IASC, as stating "[i]f the SEC weren't to endorse the standards... companies and countries that have been adopting international standards will set up [local] accounting standards to suit their own needs, with no central organization to draw them together").
68 See National Securities Markets Improvement Act of 1996, Pub. L. No. 104-290, § 509, 110 Stat. 3416, 3449 (1996) (calling for the adoption of uniform standards, emphasizing the importance and benefits of uniform standards in facilitating cross-border financings, and requiring the SEC to "enhance its vigorous support for the development of high-quality [IASs]" and to report to Congress on the status of these efforts); see also Reiter, supra note 11, at 857 (stating that in April 1996 the SEC issued a statement supporting the IASC's work towards the development of IASs); Arthur Levitt, Corporate Finance in the Information Age, Address Before the Securities Regulation Institute (Jan. 23, 1997), in INSIGHTS, Mar. 1997, at 19, 21 (noting that there is an "urgent need" to develop IASs and that the SEC is working closely with international regulatory bodies to attain this goal); Redd, supra note 34, at 21.
be able to use IASs in financial statements prepared as part of issuances in U.S. equity markets. An assessment of U.S. activities relating to IASs does offer some encouragement that U.S. regulators may allow the use of IASs in U.S. transactions.

Although U.S. regulators are not directly involved in the IASC, the United States participated in the development of the standards. For example, the SEC evaluated IASC draft standards and offered comments both independently and as a member of the IOSCO's committee on Multinational Disclosure and Accounting, and FASB participated in an advisory capacity in the development of the standards.

Additionally, the United States has taken positive steps towards the internationalization of accounting principles by agreeing to accept limited financial data prepared in accordance with IASs. For example, the SEC has agreed to accept cash flow statements prepared in accordance with IAS No. 7, Cash Flow Statements, without an accompanying reconciliation to U.S. GAAP (which is currently required for other foreign financial statements). The SEC also accepts statements prepared in accordance with IAS No. 21, the Effects of Changes in Foreign Exchange Rates.

Furthermore, the United States relaxed its reconciliation requirements for business combinations recorded in accordance with IAS No. 22, as amended, Business Combinations. Prior

69 See Reiter, supra note 11, at 863 (noting that IASs will likely be commonly used in international securities offerings including U.S. offerings); Grasso, supra note 2, at 1115 (indicating a belief that foreign issuers will be using international standards to list securities on the exchange by 2000); Ties that Bind, supra note 2 (noting that the large continental groups and the New York Stock Exchange may be using IASs by 2000). But see Redd, supra note 34, at 22 (indicating that global accounting standards are most likely "inevitable" but will be a result of a gradual process and that the SEC will not adopt IASC standards upon completion).

70 See Reiter, supra note 11, at 856-59.

71 However, as previously mentioned, FASB is not a member of the IASC Board. See Congressional Interference and Global Standards Worry FASB, PRAC. ACCT. MAG., Oct. 19, 1998.

72 See Rowe, supra note 64, at 224; Reiter, supra note 11, at 861-62.

73 See Rowe, supra note 64, at 224; Reiter, supra note 11, at 861-62.

74 See Reiter, supra note 11, at 860-62 (describing the changes in the reconciliations required by foreign issuers when financial statements are prepared in accordance with IAS 22); Lonnie S. Keene, Globalization and Competition: A Proposal to Liberalize Foreign Securities Disclosure Regulation, 29 N.Y.U. J.

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SEC rules required foreign issuers to quantify in their financial statements the effects of accounting for a business combination under a different method than that prescribed by U.S. GAAP. Current U.S. rules allow a foreign issuer to use the IAS criteria to determine what method of accounting to use for a business combination (purchase versus pooling). However, a foreign issuer is still required to reconcile the differences that result from the use of different procedures (IAS versus U.S. GAAP) to implement the method.

The U.S. statement of commitment to the development of IASs and its recent regulatory changes that make it easier for foreign countries to comply with U.S. regulations are encouraging. Ideally, these efforts are a sign that the United States will remove barriers to foreign investment and transactions by implementing IASs.

4. PROBLEMS WITH U.S. ADOPTION

Despite the positive steps taken by the United States, some factors indicate that the United States will not adopt the international standards. First, there are several differences between U.S. standards and IASC standards. Second, some people question the necessity and rationality of changing the current U.S. system, because it has served U.S. markets very well for the past several decades. Third, the United States disapproves of the current structure of the IASC and may use this as a reason to reject the international standards.

This section will examine the differences between U.S. and IASC standards and the belief of many commentators that the
United States will never adopt standards that are different from its own.

4.1. U.S. Standards Compared to International Standards

Although some IASs are similar to U.S. GAAP or take a similar approach to U.S. GAAP, there are many substantive differences between IASs and U.S. GAAP.\textsuperscript{81} A complete analysis of the differences between U.S. GAAP and IASs is beyond the scope of this comment, but an overview of some of the differences follows.

4.1.1. Goodwill and Intangibles

One notable area of disagreement is the amortization of goodwill and intangibles.\textsuperscript{82} In the core standards, the IASC takes the position that intangibles and goodwill should normally be amortized over twenty years, but there should be no limit on the life of the intangibles or goodwill.\textsuperscript{83} Alternatively, U.S. standards have traditionally limited the amortization period to forty years,\textsuperscript{84} but FASB is considering changing the U.S. standard so that goodwill would be amortized over twenty years.\textsuperscript{85} The IOSCO would prefer a limit of twenty years.\textsuperscript{86}

4.1.2. Business Combinations

Accounting for goodwill is also associated with accounting for business combinations, another area in which the IASC and the United States have traditionally taken different approaches.\textsuperscript{87} Business organizations often ascribe the difference between what they pay for an acquisition and its historical value to goodwill.\textsuperscript{88}

Traditionally, commentators argued that U.S. standards relating to business combinations put U.S. companies at a disadvan-

\textsuperscript{81} See Redd, supra note 34, at 20-21.
\textsuperscript{82} See Interview with Sir Bryan Carsberg, supra note 11, at 15.
\textsuperscript{83} See FASB Abandons Recent Approach on Goodwill, CORP. FIN. WK., Oct. 26, 1998, at 5; Interview with Sir Bryan Carsberg, supra note 11, at 15.
\textsuperscript{84} See Interview with Sir Bryan Carsberg, supra note 11, at 15.
\textsuperscript{86} See Interview with Sir Bryan Carsberg, supra note 11, at 15.
\textsuperscript{87} See Redd, supra note 34, at 21 (reporting that FASB identified business combinations as an area in which significant differences exist between U.S. and IASC standards, and that these differences would "impair comparability").
\textsuperscript{88} See FASB Abandons Recent Approach on Goodwill, supra note 83.
tage in the international marketplace, because U.S. standards historically have been more restrictive than foreign standards with respect to the use of the pooling method of accounting for business combinations. However, recent commentators dismiss this theory and say that the international trend is to place greater restrictions on the application of the pooling method than does the current U.S. treatment. This may be true for the time being, but it is important to note that FASB has announced that it plans to eliminate the use of the pooling method entirely by January 1, 2001.

Most parties to a business combination prefer to use the pooling method rather than the purchase method. The pooling method treats the combination of two businesses as a “uniting” of the two companies by an exchange of stock and avoids the recording of any goodwill. Under the purchase method, the transaction is treated as the purchase of one entity by another. The assets and liabilities of the purchased entity are revalued to fair value and any excess of the purchase price over the net fair value is recorded as goodwill. If goodwill is recorded, it must be amortized, resulting in a charge to income over several years. This results in a reduction of earnings, which, if substantial, may effectively “offset [the] synergy or savings [resulting] from the takeover itself.”

89 See Richard Y. Roberts, Time to Reexamine Pooling Criteria, SC46 A.L.I.-A.B.A. COURSE OF STUD., ACCT. LIAB. LITIG. 453, 459 (1998) (noting that historically, parties lobbying for a broader pooling standard in the United States justified their stance by claiming that a broader standard was necessary to compete internationally); Wang, supra note 2, at 170 (claiming that foreign companies have a “walloping advantage” over U.S. companies when it comes to accounting for the goodwill resulting from acquisitions).

90 See Roberts, supra note 89, at 459.

91 See Kelly, supra note 85, at 4.

92 See Roberts, supra note 89, at 457; FASB Talks Business Combos with G4+1, C.F.O ALERT, Nov. 2, 1998, at 1 (stating that “companies overwhelmingly prefer the pooling method [and] avoid the purchase method because it means they must amortize goodwill”).

93 See Roberts, supra note 89, at 456, 461.

94 See id. at 455 & 461 n.1.

95 See id.

96 See id. at 456.

97 Wang, supra note 2, at 170 (noting that the amortization of goodwill reduces earnings, and in an era where “chief executives are compensated based on earnings per share[, it] makes them wary about taking a big bite of goodwill” (quoting Peter Berger, partner at Arthur Anderson)).
The standard proposed by the IASC effectively limits the use of the pooling method to "rare circumstances," whereas the U.S. standard, though restrictive, now appears to be less restrictive than the IASC standard. However, recent documents released by FASB suggest that FASB is currently reviewing its standards for business combinations in an attempt to harmonize those standards with international standards (i.e. the United States may soon use similar criteria to determine whether the pooling method may be used in a transaction). Although this additional harmonization is a step in the right direction, it will not necessarily put foreign parties on an equal standing when considering an acquisition. The new U.S. business combination standards will make the use of purchase accounting more likely. Under the purchase method, the parties will have to record and amortize goodwill and the standards for goodwill are still very different.

4.1.3. Research and Development Costs

The U.S. standards and the IASC standards also differ with respect to accounting for research and development costs. Under IAS 9, research and development costs are capitalized if certain conditions are met, and disclosure requirements are more extensive under IASC standards than under U.S. standards. Under U.S. GAAP, research and development costs are expensed. Therefore, the net income and the assets of a company with considerable research and development costs will be substantially different depending upon which standard is used.

4.1.4. Accounting for Leases

Additionally, IASC and U.S. standards differ in their treatment of leases. The IAS for leases contains less guidance and

98 See Roberts, supra note 89, at 460; FASB Talks Business Combos with G4+1, supra note 92.
99 See Roberts, supra note 89, at 459.
100 See FASB Talks Business Combos with G4+1, supra note 92.
101 See supra Section 4.1.1.
102 See Redd, supra note 34, at 20.
103 See id.
104 See id.
105 See id. at 21 (noting that "[w]hile both sets of accounting rules are similar in approach, different accounting results could be reached depending on which organization’s rules were applied").
gives the professional preparing or certifying the financial statements more flexibility when deciding how to classify a lease. U.S. GAAP, however, is more rigid and lease classification is based on specific tests that "objectively measure whether or not ownership risks have been substantially transferred concerning a leasing transaction." 

The classification of a lease makes a significant difference in the accounting result. If a lease is recorded as a capital lease, ownership of the subject of the lease is considered to have been transferred to the lessee and the lease is treated as a source of financing for that asset. The subject of a capital lease is recorded as an asset (which is depreciated over the life of the asset), and the future lease payments are recorded as a corresponding liability, which is reduced as lease payments are made. Alternatively, if a lease is classified as an operating lease, the lessee expenses lease payments as rent expense in the periods that the asset is used and "ignore[s] any commitments to make future payments." Over the life of the lease, the total charges to operations will be the same regardless of whether the lease is classified as an operating or a capital lease, but the amount of the yearly expense will be different depending on which method is used.

These are only some of the differences between the U.S. accounting standards and IASs promulgated by the IASC. Many commentators point to these differences as one reason for their belief that the United States will not adopt international standards.

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106 See id. at 21 (noting that "IAS 17 provides for a judgmental determination based on the 'substance' of the underlying transaction when classifying a leasing transaction").

107 Id.


109 See id.

110 Id. at 1169.

111 See id. at 1170.

112 See Redd, supra note 34, at 20 (describing a FASB report that compares IASC and U.S. GAAP and identifies "approximately 250 'variations' between U.S. GAAP and IASC accounting standards").

113 See infra Section 4.2.
4.2. Skepticism and Criticism About U.S. Adoption of the IASC's Standards

As a result of the differences between U.S. and IASC standards, many commentators are skeptical of U.S. support of international standards and believe that the United States will reject the core standards proposed by the IASC.114 The SEC has placed three conditions on its acceptance of the core IASs: the standards must be (i) comprehensive, (ii) of high quality, and (iii) rigorously interpreted and applied.115 Certainly, with such vague language, the SEC leaves the door open to reject the standards, and it is quite possible that the SEC will find that the standards developed by the IASC do not satisfy these conditions.116 Additionally, the United States is displeased with the structure of the IASC and may use its dissatisfaction with the IASC's role as a standard setter as a reason for rejecting the standards.117

4.2.1. Concerns over the Quality of IASC Standards

Commentators criticize U.S. refusal to accept any standards other than its own,118 arguing that it is unrealistic and self-
interested for the United States to expect the rest of the world to adopt all of the U.S. standards. Commentators also note that, while U.S. regulations have served U.S. investors well, they are simply not adequate to portray the true picture of business entities with global operations and, therefore, the United States should adopt an approach that allows issuers “a greater global approach to their financial statements.”

4.2.2. The Structure of the IASC

Also jeopardizing U.S. acceptance and implementation of the international standards are disagreements over the structure of the IASC. Specifically, U.S. standard setters have indicated that

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119 See IASC Nears the Finish Line, supra note 11, at 7 (reporting that many Europeans believe that the U.S. lack of enthusiasm over the standards to be “motivated simply by self-interest”). The article also quotes Peter Zurbruegg, senior accounting manager at the Swiss pharmaceutical group Roche as stating “[t]he Americans have not yet accepted standards other than U.S. GAAP because they do not want their dominance of world accounting standards diminished.... [T]hey want to retain control over access to the world’s largest source of capital”). Id.; see also Wipperfurth, supra note 1, at 17 (noting that the “SEC’s critics argue that the agency runs the risk of isolating itself through what some consider over-regulation”).

120 Grasso, supra note 2, at 1119-20 (noting that he is “not an advocate of wholesale abolition of [U.S.] standards” but that he believes that if you look at some international companies like Citicorp or Exxon “you really do raise the question of whether U.S. GAAP should be the prevailing convention” or whether there should be some recognition of the global aspect of their business); see also Uri Geiger, The Case for the Harmonization of Securities Disclosure Rules in the Global Market, 1997 COLUM. BUS. L. REV. 241, 265 (arguing that U.S. laws should be harmonized with international laws in order to adapt to the increasingly global marketplace and that current U.S. laws were developed when U.S. markets existed in “splendid isolation”); Jeffrey E. Garten, Global Accounting Rules? Not So Fast, BUS. WK., Apr. 5, 1999, at 26 (stating that “[n]o one argues that the [United States] should lower its standards or weaken its protection of American investors” but that experts like Trevor S. Harris of Columbia Business School believe that “the time has come to give international standards a chance in the [United States] because they are as useful as those in use in America” and that other U.S. accounting specialists say that some international standards, such as the ones relating to mergers and acquisitions, are more useful than the U.S. standards).

121 See IASC Doomsday Looms, supra note 80. Early in 1999, the United States rejected the IASC’s first proposed constitutional overhaul of the IASC structure. This overhaul called for the establishment of two committees. One of the two committees, the Standards Development Committee (“SDC”), was to be composed of national standard setters. The proposed SDC committee was to develop the standards, but an expanded board (similar to the current IASC) would retain veto power. This initial proposal was perceived as an effort to affect a compromise between the United States and the European Un-
they may abandon the IASC altogether if certain reorganization proposals are not adopted. 122 Although the IASC has been working on restructuring proposals, the loss of U.S. funding and support could be deadly to the IASC. 123

It appears that U.S. discomfort with the current structure of the IASC, and the differences between U.S. standards and IASC standards, may ultimately prompt the United States to reject IASC standards. Not only would this rejection be troublesome for the IASC, but it would be a step backwards for the United States, because the United States stands to benefit from the adoption of international standards.

122 See Congressional Interference and Global Standards Worry FASB, supra note 71 (quoting Edmund Jenkins, Chairman of FASB, as stating "[i]f the IASC is to be the global standard setter of the future, its organization and process must change"); Garten, supra note 120 (stating that Tim Lucas, director of research, FASB, thinks it may be at least a decade before the "rule-setting and enforcement mechanisms" are suitable for U.S. adoption); IASC Doomsday Looms, supra note 80 (stating that the IASC restructuring proposals are designed to address conditions imposed by the SEC for implementation and enforcement of the international standards, and also stating that Tony Cope of FASB acknowledged the possibility that G4 standard setters might leave the IASC and take other countries' standard setters with them if the IASC did not adopt certain restructuring proposals); IASC Nears the Finish Line, supra note 11 (stating that FASB and the SEC are criticizing the IASC's operations, and that "FASB has said it may withhold its subscription to the IASC if changes are not made"); Jim Kelly, Transatlantic Divide: The Quest for One Set of Standards Has Pitted the U.S. Against the Rest of the World, FIN. TIMES, April 15, 1999, at 18 (discussing the U.S. view of how the international standard setting body should be structured, and stating that current statements by the SEC hint that "IOSCO endorsement [of IASC standards] may not be the pivotal issue. It may, perhaps, be pre-empted by reform of the IASC itself").

123 See IASC Doomsday Looms, supra note 80 (stating that because of restructuring problems, the IASC "is in danger of at worst extinction or at best becoming irrelevant" and citing Tony Cope of FASB as stating that "without reform the IASC would have no future").
5. **WHY THE UNITED STATES SHOULD ACCEPT AND IMPLEMENT THE INTERNATIONAL STANDARDS**

The United States should dispel its critics by confidently adopting and promoting IASC standards. The adoption of these standards will enable the United States to remain competitive with foreign markets and will protect U.S. investors abroad. These benefits clearly outweigh the concerns cited by those who oppose the standards.

5.1. **Retain U.S. Competitiveness with Foreign Markets**

The growth in the size and sophistication of foreign markets makes these markets increasingly attractive to investors. Many commentators believe that when forced to choose between foreign markets and U.S. markets, investors will choose foreign markets rather than deal with the burdensome and expensive compliance costs associated with current U.S. regulations. If the United States adopts international standards and pushes the other IOSCO participants to adopt the standards as well, the financial and disclosure requirements of all international exchanges would be similar, thus removing one incentive to invest in foreign markets rather than in U.S. markets.

5.2. **Protect U.S. Investors Abroad**

IASs are also needed to protect U.S. investors abroad. As world markets grow at a rapid pace and trading costs abroad decline, U.S. investors are increasingly investing in non-U.S. equi-

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124 See Geiger, supra note 120, at 259 (noting that surveys identify disclosure costs as the "single most important factor" considered by companies deciding whether to participate in a multinational offering, and that it is important for the United States to attract foreign investors to its markets); Grasso, supra note 2, at 1115 (stating that the task of reconciling foreign statements with U.S. GAAP is a "major impediment" to international companies entering U.S. capital markets); Keene, supra note 74, at 337. But see James A. Fanto & Roberta S. Karmel, A Report on the Attitudes of Foreign Companies Regarding a U.S. Listing, 3 STAN. J.L. BUS. & FIN. 51, 52 (noting that disclosure requirements are not always the most important consideration of foreign companies when deciding whether to list in the United States).

125 See Levitt, supra note 68, at 21 (declaring that "[t]here is an urgent need to develop a set of high-quality [IASs], so that U.S. investors know they are protected even when they invest overseas").
ties.\textsuperscript{126} The United States should naturally be concerned with the protection of U.S. investments abroad. The adoption of the international standards by the United States will serve as a positive force in prompting other nations to adopt the international standards as well,\textsuperscript{127} which, in turn, will increase the quality and degree of information available to investors worldwide.\textsuperscript{128}

For example, in the Asian Crisis, commentators believe that U.S. investors were directly affected by the lack of transparency in Asian markets,\textsuperscript{129} and they also believe that Japan’s banking industry crisis would not have occurred if global accounting rules had been in effect.\textsuperscript{130} The conversion of overseas markets, such as the Asian markets, to IASs, will allow U.S. investors to effectively analyze the financial results of non-U.S. entities and to significantly reduce the risk to U.S. investors.\textsuperscript{131}

5.3. Additional Concerns Over Proposed Standards

Although the benefits of global accounting standards are clear, U.S. participants still express concerns over the use of the international standards. Admittedly, the adoption and implementation of international standards present significant challenges, but it may be possible to assess these concerns and develop a plan to address these issues while still implementing an effective international standard.

\textsuperscript{126} See Grasso, supra note 2, at 1111-12 (stating that there has been a "massive shift" of U.S. investors into non-U.S. equity, and that the non-U.S. component of U.S. portfolios has nearly doubled in the last five years due to the decline in trading costs for U.S. investors trading abroad).

\textsuperscript{127} See supra Section 2.3.5.

\textsuperscript{128} See Pacter, supra note 13, at 18 (citing an October, 1997 SEC report to Congress which stated that the IASC’s efforts have already helped to raise “the level of accounting standards worldwide... and are encouraging development of accounting principles that have the needs of investors and capital markets as their primary focus”); Mercado, supra note 4, at 348 (stating that international standards will allow for a “more systematic comparison of companies around the world”); APEC, supra note 18.

\textsuperscript{129} See Thomas Krider, Comment, Taking Another Look at the Regulation of Mutual Funds in the Aftermath of the Asian Financial Crisis, 7 PAC. RIM L. & POL’Y J. 427 (1998).

\textsuperscript{130} See Japan to Overhaul Audit and Accounting, THE ACCOUNTANT, Aug. 1998 (reporting that Michael Sharpe, Chairman of the IASC, disparaged the Japanese authorities for not adopting international standards which could have prevented the crisis).

\textsuperscript{131} See Krider, supra note 129, at 448.
For example, many supporters of U.S. standards argue that the success of U.S. capital markets and the confidence of U.S. investors illustrate the success of financial disclosure in the United States, and that the replacement of effective U.S. standards would be a mistake. Although the U.S. standards have undoubtedly served U.S. markets well, the U.S. standards are valued largely because of their disclosure requirements and their transparency and comparability elements. As long as sufficient disclosure is present under the international standards, financial statements prepared using international standards may actually be more comparable and informative in this global age.

In fact, in its comparison of IASC and U.S. standards, FASB noted instances in which the international standards were superior to U.S. standards and required greater disclosure. FASB also noted several differences between IASC standards and U.S. GAAP standards that would hinder the comparability of statements prepared using the two methods. As discussed in Section

132 See Grasso, supra note 2, at 1120 (stating that the success of U.S. markets is a result of U.S. confidence in the present regulations); Redd, supra note 34, at 21 (claiming that the "credibility that characterizes U.S. markets is due in part to the high quality of U.S. accounting standards").

133 See Grasso, supra note 2, at 1119 (stating that he is "not an advocate of wholesale abolition" of U.S. standards as they have served the United States well); Redd, supra note 34, at 19 (stating that although a worldwide accounting standard is initially appealing, it should be approached with caution).

134 Certainly the fact that the SEC requires IASC standards to be (i) comprehensive; (ii) high quality (i.e., standards providing comparability, transparency, and full disclosure); and (iii) rigorously interpreted and applied, see Rowe, supra note 64, at 223-24, indicates that these characteristics are valued; see also Grasso, supra note 2, at 1120 (stating that the success of U.S. markets is a result of investor confidence achieved from frequency of financial disclosure); Pacter, supra note 13, at 17 (stating that the "U.S. accounting literature is the most comprehensive and arguably the best in the world [and that] American investors are the most informed").

135 See Pacter, supra note 13, at 17 (discussing a recent report, Apples to Apples, issued by Morgan Stanley Dean Witter's equity research group, that says that "[f]or reflecting economic substance in most industries, IAS is easily of comparable quality to U.S. GAAP, if auditors do their jobs[, yet it is] less detailed than U.S. GAAP"); Redd, supra note 34, at 19-21 (citing the FASB report as revealing instances in which IASC standards were deemed to be superior to U.S. GAAP, were required to contain more detailed information than U.S. GAAP, and were found to require more extensive disclosure under IAS 9 than under U.S. GAAP).

136 See Redd, supra note 34, at 20 (concluding that even though U.S. GAAP and IASC often used a similar approach, "comparability problems" could still occur).
2.1 of this comment, this lack of comparability will harm U.S. and international investors.

Additionally, the SEC and other commentators claim that IASC standards are subject to a broad range of interpretations,¹³⁷ and that the structure of the current IASC is inadequate.¹³⁸ However, in 1997, the IASC set up the Standing Interpretation Committee, which publishes interpretations of existing IASs.¹³⁹ Business entities wishing to comply with IASs will be required to follow these interpretations.¹⁴⁰ Furthermore, the IASC is clearly making an effort to effect structural changes that will please the United States.¹⁴¹ Therefore, as part of its implementation of the international standards, the United States can require strict compliance with these interpretations and push for additional work by the interpretations committee and suitable structural reform of the IASC.

As this discussion illustrates, the U.S. adoption of the standards will allow the United States to adapt to the global age, retain its competitiveness, and increase the information available to U.S. investors and business entities. These benefits are a strong incentive and suggest that the standards should be immediately adopted. This is especially so, since it appears that the IASC is eager to work with the United States and therefore, the problems surrounding the standards can be easily resolved by the active cooperation of the United States and foreign nations.

6. CONCLUSION

As the world moves towards an increasingly global economy, each nation must evaluate its current practices and cooperate with other nations in order to facilitate this new way of doing business. Although the United States is a clear leader in the world's economy, it cannot deny or escape the effects of the practices or regulations of other nations. The clash between U.S. and foreign accounting practices has concerned the United States and impeded cross-border transactions since 1973, when the IASC was first es-

¹³⁷ See Ties that Bind, supra note 2.
¹³⁸ See supra Section 4.2.2.
¹³⁹ See Ties that Bind, supra note 2.
¹⁴⁰ See id.
¹⁴¹ See supra note 121 for a description of the recent structural reform proposals offered by the IASC.

https://scholarship.law.upenn.edu/jil/vol20/iss4/4
tablished to address these issues. Now, twenty-five years later, the IASC is finally prepared to offer a solution to these differences: a core set of international accounting principles.

U.S. acceptance of these standards can induce the acceptance of the standards worldwide, facilitate cross-border transactions, and spur the expansion and stability of world markets. As a result of the IASC’s recent presentation of core accounting standards, the world anxiously wonders whether the United States will undermine the progress made by the IASC towards international harmonization and refuse to accept change.

The United States must dispel its critics by confidently and completely adopting and implementing IASs. Although the effective implementation of these standards will require changes to a system that has undoubtedly served the United States well, U.S. acceptance and implementation of IASC standards is clearly in the best interest of the United States and foreign nations. By adopting IASs, the United States will recognize the changes in the world economy, reveal the true value of investments, and work with other nations to ensure the stability of world markets.