International Business Research; Vol. 10, No. 9; 2017
ISSN 1913-9004 E-ISSN 1913-9012
Published by Canadian Center of Science and Education

A Review of IFRS and U.S. GAAP Convergence History and Relevant Studies

Xiaoli Ortega[1]

[1]Assistant Professor of Accounting, Woodbury School of Business, Utah Valley University, 800 West University Parkway, Orem, Utah 84058, USA

Correspondence: Xiaoli Ortega, Assistant Professor of Accounting, Woodbury School of Business, Utah Valley University, 800 West University Parkway, Orem, Utah 84058, USA.

Received: July 3, 2017 Accepted: July 31, 2017 Online Published: August 1, 2017

doi:10.5539/ibr.v10n9p31 URL: https://doi.org/10.5539/ibr.v10n9p31

Abstract

In this paper, I conduct a review of the IFRS and U.S. GAAP convergence history and the related studies. I first review the history of the early accounting standards harmonization efforts in the Europe Union in the 1970s and 1980s. Next, I discuss the modern convergence efforts as well as the voluntary adoption of the International Accounting Standards (IAS) in the 1990s and early 2000s. I then discuss the concurrent global accounting standards convergence efforts from 2002 to present, including the mandatory IFRS adoption in the EU in 2005 and the convergence between the IFRS and U.S. GAAP. As I review the harmonization and convergence efforts over time, I discuss studies related to each stage of the history. I contribute to the accounting literature by providing a historical review of the IFRS-U.S. GAAP convergence process and relevant studies that can be useful for accounting educators and students, researchers, practitioners, and standards setters.

Keywords: accounting comparability, convergence, harmonization, history, IFRS, U.S. GAAP

1. Introduction

With the rapid adoption of the International Financial Reporting Standards (IFRS) by more than one hundred jurisdictions across the world over the last decade, the U.S. is one of the few countries that have not reached a final conclusion. In fact, the U.S. seems to be slowing down its pace on the IFRS adoption roadmap it outlined nearly ten years ago. Nevertheless, the U.S. has been in support of a single set of global accounting standards and has been working closely with the International Accounting Standards Board (IASB) to harmonize or converge the U.S. GAAP with IFRS. The two sets of accounting standards are now much more similar than they were twenty years ago. Although no one knows whether the U.S. is going to adopt IFRS in the future, IFRS remains relevant in the U.S. as many U.S. companies and investors are doing business all over the world.

In this study, I conduct a review of the IFRS and U.S. GAAP convergence process and the related literature with a historical approach. I first review the history of the early accounting standards harmonization efforts in the Europe Union (EU) in the 1970s and 1980s. Next, I discuss the modern convergence efforts and the voluntary adoption of the International Accounting Standards (IAS) in the 1990s and early 2000s. I then discuss the concurrent global accounting standards convergence efforts from 2002 to present, including the mandatory IFRS adoption in the EU in 2005 and the convergence between IFRS and U.S. GAAP. As I review the harmonization and convergence efforts over time, I discuss studies related to each stage of the history. The focus of the literature review is on studies about the impact of the mandatory IFRS adoption on accounting comparability, which is one of the stated objectives of adopting a single set of global accounting standards. I contribute to the accounting literature by conducting a historical review of the IFRS and U.S. GAAP convergence process and the relevant studies, thereby providing insights on the future of IFRS in the U.S. The information discussed in this study can be used by accounting educators and students in all levels of financial accounting class so that students can have a quick grasp of the evolution of IFRS. The study also conveys implications for accounting researchers, practitioners, and standard setters who are interested in the potential adoption of IFRS by U.S. domestic firms.

2. Early Harmonization Efforts in the European Union

Differences in legal systems, along with differences in political and economic systems, created the extremely diverse and country-specific accounting systems in Europe (Soderstrom & Sun, 2007). Because of the difficulty of comparing financial statements prepared under different accounting systems, and because of the need for cross-border investment, the European Commission (EC) started to harmonize accounting systems in the early 1970s and 1980s by issuing several directives to reduce the differences among accounting standards in the region. The directives are legally binding instruments that are addressed to the member states by the Council of Ministers. They specify financial reporting requirements and permit alternatives to accounting rules (Joos & Lang, 1994). The objective of the directives was to make financial statements more comparable in terms of presentation format and recording, as well as measurement rules.

The Fourth Directive and the Seventh Directive (enacted in 1978 and1983, respectively) were among the most influential regulations. The Fourth Directive is applicable to all limited liability companies and was implemented by all member states by 1991 (Joos & Lang, 1994). The Seventh Directive focuses on consolidation and addresses issues relevant to multinational companies. In regards to these two directives, Soderstrom and Sun (2011) state that:

> "The Fourth Directive specifies 'True and Fair View' (TFV) as an overriding principle of financial reporting, and defines the format and measurement of balance sheets and income statements. TFV is a broad concept in which accounts are reported with the aim of providing unbiased information about activities that affect a company's intrinsic value (Ekholm and Troberg, 1998). The Seventh Directive addresses issues associated with consolidations. It sets forth requirements for consolidation and applies TVF to consolidated financial statements." (p. 7)

The intent of the directives was to create a set of integrated accounting standards to establish a basic level of transparency and comparability to facilitate cross-listing and cross-border investment (Joos & Lang, 1994). The most clear effects of the application of the two directives are the adoption of TFV and the separation of book-tax accounting conformity (Soderstrom & Sun, 2011), but the more specific requirements on measurements are left to the EU member countries' discretion (Joos & Lang, 1994). The effectiveness of the two directives is thus unclear. Particularly, there is a concern that the directives might have presented "more form than substance". Proponents of the TFV approach contend that the adoption of the TFV approach can give firms additional flexibility to present the particular circumstance of the firm appropriately, while opponents argue that the approach will give managers too much leeway thus reduces comparability.

Joos and Lang (1994) were among the first researchers to provide empirical evidence on the effectiveness of the directives in mitigating the accounting measurement diversity among firms in Germany, France, as well as the United Kingdom (U.K.). Germany and the U.K. are the originators of two primary accounting philosophies in the world: the Anglo-Saxon and the Continental models. France is somewhere in between the two models (Joos & Lang, 1994). The Anglo-Saxon model focuses primarily on investors and allows discretion of preparation of financial reporting if the resulting statements are the "true and fair view" of the underlying financial situation. It decouples the link between financial reporting and tax accounting. The Continental model focuses primarily on debt holders. It codifies financial reporting and has a strong link between financial and tax accounting (Joos & Lang, 1994). The authors argue that if the directives are effective in reducing the differences in accounting measurement rules, the effect should be evident for firms from the three countries included in the study.

Specifically, the authors examine the convergence of three financial ratios across the three countries: return on equity (ROE), earnings/price (E/P) ratio, and book-to-market (B/M) ratio with the adoption of the directives. They also evaluate the association between returns and earnings to study the value relevance of reported accounting data. Their analysis is based on annual financial statement data and monthly market data for 1982-1990 with data coming from the Global Vantage Industrial Commercial Data Base. The results suggest that significant differences in the three ratios do exist in the pre-directive period and the differences are consistent with the differences in the accounting systems of the three countries. However, they do not find evidence that these differences in accounting ratios reduce after the application of the directives. The authors cautiously conclude that the directives have done little to mitigate the measurement differences in the accounting systems across the three countries.

Harris, Lang, and Moller (1994) conduct a similar study to examine the value relevance of the German GAAP and the U.S. GAAP for the period prior to and post the implementation of the directives. They regress returns on earnings and changes in earnings, and find no difference in the explanatory power between German and U.S. GAAP earnings in the pre- and post-implementation periods. In addition, they find no difference in explanatory power for the German firms after the adoption of the directives. When regressing returns on earnings and book values of equity, they find that U.S. firms have higher explanatory power. They also compare the value relevance of reported earnings and Deutsche Vereinigung für Finanzanalyse und Anlagenberatung (DVFA) earnings for firms in the two countries but only find weak evidence that the explanatory power increases when using the DVFA earnings.

In summary, although the objective of the EC directives is to harmonize the accounting standards in the European Union, studies suggest that the actual effect of the laws is unclear. Nevertheless, the directives result in a uniformed format of financial reporting. Moreover, the directives are the pilot step towards accounting harmonization, which extends into today's accounting convergence efforts in the world (Soderstrom & Sun, 2011).

3. Modern Convergence Efforts around the World and Voluntary Adoption of IAS

The FASB, or Financial Accounting Standards Board, noted that "By the 1990s, the notion of harmonization was replaced by the concept of convergence - the development of a single set of high-quality, international accounting standards that would be used in at least all major capital markets" (Financial Accounting Standard Board [FASB], 2012). There were continued efforts to reduce accounting differences across countries in the 1990s. Countries like the U.S., U.K., and Canada worked together to develop joint standards, and auditing firms also worked together to develop consistent practice standards for the industry (Land & Lang, 2002).

These convergence efforts stem from steps in the international accounting standards as early as the 1960s. In 1973, the International Accounting Standards Committee (IASC) was established by the American Institute of Certified Public Accountants (AICPA). Its mission was to formulate and publish accounting standards for audited accounts. It also promoted the acceptance of the standards worldwide (FASB, 2012). The FASB began to collaborate with the IASC in the late 1970s. In 1979, the FASB decided to include members of the U.K. Accounting Standards Board on the project it was undertaking. In 1988, the FASB became a member of the IASC Consultative Group. Also in this year, the FASB expressed its support for a single set of international accounting standards. In the 1990s, the FASB expanded and formalized its international activities. The U.S. Congress and the Securities and Exchanges Commission (SEC) also got involved in international accounting standards. In fact, the FASB was directly involved in the working force that led to restructuring the IASC into the IASB in 2001 (FASB, 2012).

The late 1990s saw a surge in voluntary adoption of IAS due to two reasons. First, firms' listing decisions are based on characteristics of the stock exchanges. As stock exchanges in Europe favored IAS, more firms chose to adopt IAS. For example, Germany's New Market, launched in 1997, required all listing firms to use either IAS or U.S. GAAP (Soderstrom & Sun, 2011) to prepare financial reports. Second, IAS was much more improved between 1987 and 1998. In 1987, the IASC started a major project, the Comparability and Improvements Project, to eliminate accounting choices as a response to the criticism that the IAS allows too much leeway for non-compliance and too many opportunities for earnings management (Soderstrom & Sun, 2011). The Comparability and Improvements Project was finished in 1993, which resulted in 10 new accounting standards being issued (Harris & Muller, 1999; Soderstrom & Sun, 2011). In addition, a set of new core IAS standards was issued in 1998 (Soderstrom & Sun, 2011). These new standards require firms to comply fully with the accounting standards. Several countries, including Austria, Belgium, France, Germany, Italy, and Switzerland, permit firms to use IAS rather than their local accounting standards.

Land and Lang (2002) examine whether cross-country differences in earnings multiples have changed over the period of 1987-1999 with the convergence of accounting standards for a sample of firms from Australia, Canada, France, Germany, Japan, the U.K., and the U.S. They find evidence of convergence in earning/price (E/P) ratio, book to market (BTM) ratio, and return on equity (ROE). Moreover, they find that the convergence persists after controlling for earnings, sales and GDP growth rate, interest rates, and returns. They find similar convergence patterns in accruals multiples, suggesting that the convergence is driven by the pricing of accruals. They also find that accruals/cash flows association and book value multiples have become similar across the sample firms over the sample period. Furthermore, they find that although earnings ratios become similar for firms across the sample countries, the ratios are systematically different for countries with code law and common law origins. Specifically, the E/P and ROE ratios are the lowest for the Japanese and German firms, which is consist with the fact that code-law countries have more conservative accounting measurement rules for income statements. Similarly, E/P and ROE are generally higher for firms in the common-law countries (Australia, Canada, U.K., and U.S.), which reflects the fact that common-law countries generally focus more on equity holders and have less conservative accounting measurements. The authors interpret the evidence as a suggestion of reduction of accounting practice differences over time with systematic differences in accounting practices remaining.

3.1 Properties of IAS versus Other Local Accounting Standards

Several studies focus on comparing the properties of IAS relative to those of other national (country-specific

GAAP) standards (Ashbaugh & Olsson, 2002; Ashbaugh & Pincus, 2001; Ball, Kothari & Robin, 2000; Barth, Landsman, & Lang, 2008; Harris & Muller, 1999; Gordon, Jorgensen, & Linthicum, 2010). Harris and Muller (1999) study the quality of IAS and U.S. GAAP earnings by examining whether 20-F reconciliation items convey information to explain stock prices and returns. Their results are sensitive to the regression models specified. They find that there are no significant differences in earnings and book values of equity between IAS and the U.S. GAAP. Their finding may be due to self-selection bias because their sample firms are firms cross-listed in the U.S. These firms may choose accounting methods consistent with the U.S. GAAP without violating IAS (Ashbaugh & Olsson, 2002; Soderstrom & Sun, 2011). Ashbaugh and Pincus (2001) find that analyst forecast errors for companies using IAS are smaller than those using domestic GAAP. Similarly, Barth et al. (2008) find that companies using IAS exhibit less earnings smoothing, more timely loss recognition, and more value relevance than those applying domestic (Non-U.S.) GAAP for a sample of 319 IAS firms from 1990 to 2003.

In addition, Gordon et al. (2010) study a set of firms that were cross-listed in the U.S. capital market and reported both IFRS and reconciled U.S. GAAP earnings for the period of 2004-2006. The authors find that earnings quality is generally not distinguishable between the IFRS numbers and the U.S. GAAP numbers except that the U.S. GAAP exhibits more cash persistence and value relevance than IFRS. They find that both IFRS and U.S. GAAP accruals are incrementally informative over cash flows. They further provide evidence that U.S. GAAP net income is incrementally more informative than IFRS earnings and cash flows, but the reverse does not hold true. They conclude that U.S. GAAP earnings exhibit higher information content.

Hung and Subramanyam (2007) compare the value relevance of the IAS and the German GAAP by regressing stock prices on book values and net incomes. They find that although the explanatory power for the regression under the two standards is not significantly different, the coefficient of book values is higher for IAS and the coefficient of net income is higher for the German GAAP. Their results suggest the existence of major differences between the IAS and the German GAAP.

In summary, most of the studies for this period compare the quality of accounting or earnings in some specific aspects (i.e., earnings attributes) between local standards and IAS within a specific country. In general, their results suggest that non-U.S. GAAPs are of lower quality than IAS, but that the U.S.GAAP is of higher quality than IAS.

4. IFRS Convergence and Mandatory Adoption in the 2000s

The IASC was formed in 1973 as the first international standards-setting body. In 2001, it was reorganized and became the International Accounting Standards Board (IASB), an independent international standard setter. The acceptance of international accounting standards has progressed rapidly since the IASB's formation. The accounting standards issued by the IASB are named International Financial Reporting Standards (IFRS). Today, over 100 countries other than the European Union either require or permit the use of International Financial Reporting Standards issued by the IASB (FASB, 2012).

The objective of the IASB and the IFRS Foundation "is to develop, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles" (International Accounting Standards Board [IASB], 2012). To achieve this goal, the IASB works closely with stakeholders around the world. Progress toward this goal has been obvious. In June 2002, the EU issued a statement to require all companies listed in the EU to use IFRS in their consolidated financial reports for years beginning 2005. Many of the other major economies have also established timelines to converge with or adopt IFRS in the near future (IASB, 2012). As of 2009, Japan and China were also working on converging their domestic standards with IFRS (FASB, 2012).

4.1 Convergence of IFRS with U.S. GAAP

The FASB and the IASB have been working closely together to improve and converge the U.S.GAAP and IFRS since 2002. In 2002, the two boards issued the Norwalk Agreement, establishing the goal of developing compatible and high quality accounting standards that can be used domestically and internationally. The agreement also set up strategies to achieve the goal including eliminating small differences, when possible, and developing standards jointly. In 2006, the FASB and the IASB issued the Memorandum of Understanding (MoU) that laid out the desired progress to be achieved by 2008. The MoU reaffirmed the objective of developing high quality common accounting standards by the two boards. It also set out guidelines in achieving the convergence goal. In 2007, the SEC eliminated the reconciliation requirement for cross-listed foreign firms that use IFRS as issued by the IASB. The two boards updated the MoU in 2008 to report the progress they made and to establish the convergence goal up to 2011. In November 2008, the SEC issued a proposed roadmap to lay out the potential adoption of IFRS by U.S. firms starting in 2014. Under the roadmap, the SEC would decide by 2011 whether it was beneficial to the public interest for U.S. firms to adopt IFRS. The roadmap also proposed to give U.S. issuers the option of using IFRS as issued by the IASB as early as 2009 (FASB, 2012).

In 2010, the SEC issued a statement to lay out its position on international accounting standards. The statement reflects the Commission's continued support for a single set of high quality international accounting standards. It also continues to encourage the convergence of IFRS and the U.S. GAAP. It directs the SEC staff to work out a plan to lay out factors and areas for the SEC staff to consider before potentially transitioning the current U.S. financial reporting system into one that incorporates IFRS. The SEC has issued quarterly progress report since then to update their progress on the projects related to the potential use of IFRS by U.S. issuers (FASB, 2012).

However, things changed in 2012. In a final report issued in July 2012 to present the progress of incorporating IFRS into the U.S. GAAP, the SEC Staff stated that the challenges lying on the road of IFRS adoption by the U.S. issuers were greater than initially anticipated. When the SEC Chairperson Mary Jo White called the then Chief Accountant James Schnurr to make a recommendation as to what action the SEC should take in terms of IFRS incorporation into the U.S. capital market, Schnurr noted that there was no real support from the investors, auditors, regulators and even standard-setters for the SEC to mandate IFRS for U.S. public companies. He therefore made no recommendation that the IFRS should be adopted in the U.S. Furthermore, Mr. Schnurr stated that the only realistic way to achieve a single set of accounting standards is to have the IASB and the FASB to continue the collaboration in the future. Although he expressed some optimism on the collaboration between the two boards, he also cautioned that the FASB and the IASB might be at a critical juncture (Calfee Halter & Griswold LLP, 2015).

By the end of 2016, the IFRS had achieved almost worldwide adoption by more than one hundred countries and the IASB and the FASB had completed most if not all of their joint projects. Interestingly, the U.S., the world largest capital market, is still not sure if it would allow its domestic companies to adopt IFRS. Although the SEC states publically in its strategic plan that it continues to support and promote a single set of high quality accounting standards to meet the needs of investors worldwide, the fact is that there is no clear sign that the IFRS will replace the U.S. GAAP in the near future. In fact, the FASB has its own agenda that is not in consultation with the IASB and it frequently issues technical guidance to its own domestic issuers. It is therefore a legitimate concern that divergence, rather than convergence, might be happening right now (Bogopolsky, 2015).

Why, then, is IFRS still relevant in the U.S.? According to the current SEC Chief Accountant Wes Bricker, about 525 foreign issuers in the United States in 2016 were able to file financial statements prepared under IFRS without reconciliation to the U.S. GAAP. Mr. Bricker also stated that U.S. companies, especially those with international operations, also have an interest in understanding IFRS. He noted that the globalized marketplace has an increasing need for understanding IFRS However, he believes that the U.S. GAAP will still best serve the U.S. capital market participates in the near future (Tysiac, 2016).

4.2 Impact of Mandatory IFRS Adoption on Accounting Comparability

Comparability is an important enhancing qualitative characteristic of financial reporting information. Comparability enables users to identify the similarities and differences between similar and different accounting items. Although the term comparability has been used widely by the business sector, formal measure of comparability is only recently underway. Studies attempt to investigate the comparability effect of IFRS adoption are generally conducted in two broad ways: either by directly measuring comparability (De Franco, Kothari, & Verdi, 2011; Barth, Landsman, Lang, & Williams, 2012; Lang, Maffett, & Owens, 2010; Ortega, 2017), or by examining observable market outcomes of comparability (De George, Li, & Shivakumar, 2016; Wang, 2014; Brochet, Jagoliner, & Riedl, 2013). The first set of studies is able to identify the sources of comparability but is limited by its ability to draw conclusions about overall comparability. The second set of studies makes inferences about comparability from observing economic consequences after firms adopting IFRS but cannot attribute the comparability changes to specific sources (De George et al., 2016).

Barth et al. (2012) investigate the comparability of IFRS and U.S. GAAP by adopting a modified version of the De Franco et al. (2011) comparability measure. They also used a measure that is based on comparison of value relevance. They find that there is a significant increase in comparability of financial statements across IFRS firms and a matched sample of U.S. firms. They also find that the increase in comparability is higher when firms are from common-law countries or countries with stronger enforcement. They conclude that mandatory IFRS adoption and improved international accounting regulations coordination have led to increased accounting comparability globally.

Lindahl and Schadéwitz (2009) study the degree of convergence between U.S. GAAP and IFRS after years of convergence efforts by the FASB and the IASB. They compare the three primary financial statements under the two sets of accounting standards from 2004 and 2006. They find that there are still large differences in income calculation and share holders' equity, but that the number of items that are different is decreasing. Their study suggests that convergence is playing a positive role in reducing the differences between the two sets of standards.

Beuselinck, Joos, and Van de Meulen (2007) examine comparability of earnings quality for 14 EU countries from 1990-2005. They find that the accruals/cash flow association has become less negative over time, suggesting higher earnings quality. Interestingly, they find that there are more cross-country variations in the accruals/cash flows association in 2005 than in earlier periods, which implies less comparability in quality with IFRS adoption. The results from this study shed some light on the effects of mandatory IFRS adoption on comparability of earnings quality, but the study does not examine accounting comparability directly.

Cascino and Gassen (2015) examine whether incentives or accounting standards shape accounting outcomes by examining the effects of IFRS adoption on comparability of financial statements in Germany and Italy, two code law European countries. Different from prior studies, they investigate whether changes in information transfers following IFRS adoption are related to the magnitude of reporting effects with IFRS adoption. They find a weak evidence of a relationship between mandatory IFRS adoption and improved accounting comparability. They also find that public firms that adopt IFRS become less comparable with local private firms that report under domestic GAAP. Their findings suggest that incentives in financial reporting affect comparability improvements.

Liao, Shellhorn, and Skaife (2012) also study the impact of mandatory IFRS adoption on accounting comparability by using the value relevance of earnings and book value of equity. They find that French and German earnings and book values are more comparable in the year after IFRS adoption, but become less comparable in later years.

Recently, Lang et al. (2010) examine changes in cross-country financial statement comparability around mandatory IFRS adoption using the two comparability measures developed by De Franco et al. (2011). The first comparability measure is the comparability of the mapping of returns into earnings between two firms from the same industry but different countries, and the second comparability measure is the co-movement of earnings between two firms in the same industry but different countries. They find that these two measures capture different aspects of accounting information in the international setting than in the U.S. setting. Specifically, they find that earnings co-movement is negatively associated with analyst forecast accuracy but positively associated with forecast dispersion and bid-ask spread. This is in direct contrast with the findings in the De Franco et al. (2011) study. Although they find similar properties regarding the accounting comparability measure to those in the De Franco et al. (2011) study, surprisingly, they find that mandatory IFRS adopters experience less comparability improvement relative to a control sample of nonadopters. The findings in the study are suggestive that the metrics used in De Franco et al. (2011) might not be ideal in certain international settings.

Ortega (2017) exams whether there is an improvement in cross-country accounting comparability following mandatory IFRS adoption, and whether this improvement comes at a cost of decreased reporting quality. Using a direct measure of accounting comparability modified from the De Franco et al (2011) and the Lang et al. (2010) studies, Ortega documents that there is a cross board improvement in cross-country accounting comparability but the improvement is associated with decreased accounting quality. The author also finds that there is an improvement in within-country accounting comparability following IFRS adoption.

Wang (2014) and Yip and Young (2012), in contrast to studies evaluating comparability directly, draw inferences about the comparability of financial statement from studying cross-border information transfers. Their inferences are based on the notion that investors can obtain more information from a foreign firm's report when the two firms apply comparable accounting methods. Wang (2014) studies whether accounting standard harmonization improves the financial statement comparability across countries following IFRS adoption using a pair-wise research design covering the period 2001-2008. She focuses on earnings announcements and for each announcement she examines the price reactions of all other non-announcing firms in the same industry but in a different country. Her findings suggest that mandatory IFRS adoption along with contemporaneous changes in regulation improve earnings comparability.

Yip and Young (2012) expand the measures of comparability for a sample of mandatory IFRS adopting firms within the EU countries. They exam two facets of comparability: similarities in accounting items between firms with similar transactions and differences in accounting items between firms with dissimilar activities. Utilizing three measures of comparability, they find that IFRS adoption improves the cross-country comparability of financial information by making similar firms look more similar in financial reports but does not make firms with different transactions look more dissimilar. They state that the improved comparability is primarily observed in firm-pairs from countries within the same legal origin.

In summary, empirical results from studies focusing on direct measures of comparability provide weak evidence of improvement in accounting comparability following the mandatory IFRS adoption, but studies investigating the capital market effects of IFRS adoption generally yield stronger evidence of increases in comparability. Overall, the results suggest that comparability matters to investors and that the increased comparability improves information environment. However, the evidence does not support the notion that harmonizing accounting standards alone can lead to full improvement in comparability in financial information, and that information comparability is affected by a variety of factors such as reporting incentives and institutional factors (De George et al., 2016).

5. Conclusion

The harmonization efforts of accounting standards in the world have come a long way. In the early years, the IAS played an important role in decreasing the differences in various local accounting standards in the European countries. In the first decade of the twenty first century, IASB and FASB made significant progress in converging IFRS and U.S. GAAP by completing several joint projects together. The U.S. had a momentum of adopting IFRS around 2008-2010, however, the enthusiasm for IFRS adoption by U.S. domestic issuers seemed to be fading away after 2012. Today it is not clear if and when would the U.S. adopt IFRS, but IFRS remains relevant in the U.S. capital market. The research literature in this area has provided evidence that supports improved cross-country information comparability following the mandatory IFRS adoption, and that comparability matters to investors. It is therefore essential for U.S. accounting practitioners, educators and investors to understand IFRS.

References

Ashbaugh, H., & Olsson, P. (2002). An exploratory study of the valuation properties of cross-listed firms' IAS and US-GAAP earnings and book values, *The Accounting Review, 77*(1), 107-126. https://doi.org/10.2308/accr.2002.77.1.107

Ashbaugh, H., & Pincus, P. (2001). Domestics accounting standards, international accounting standards, and the predictability of earnings. *Journal of Accounting Research, 39*(3), 417-434. https://doi.org/10.1111/1475-679X.00020

Ball, R., Kothari, S. P., & Robin, A. (2000). The effect of international institutional factors on properties of accounting earnings. *Journal of Accounting and Economics*, *29*, 1-51. https://doi.org/10.1016/S0165-4101(00)00012-4

Barth, M. E., Landsman, W. R., & Lang, M. H. (2008). International accounting standards and accounting quality. *Journal of Accounting Research, 46*(3), 467-498. https://doi.org/10.1111/j.1475-679X.2008.00287.x

Barth, M. E., Landsman, W. R., Lang, M., & Williams, C. (2012). Are IFRS-based and US GAAP-based accounting amounts comparable? *Journal of Accounting and Economics, 54*, 68-93. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1585404##

Beuselink, C., Joos, P., & Van der Meulen, S. (2007). International earnings comparability. (Unpublished working paper). Catholic University of Lille, Tilburg University, and Tilburg University.https://doi.org/10.2139/ssrn.1014086

Bogopolsky, A. (2015). Does IFRS have a future in the US? https://www.ifac.org/global-knowledge-gateway/business-reporting/discussion/does-ifrs-have-future-us.

Brochet, F., Jagolinzer, A. D., & Riedl, E. J. (2013). Mandatory IFRS adoption and financial statement comparability. *Contemporary Accounting Research, 30*(4), 1373-1400. https://doi.org/10.1111/1911-3846.12002

Calfee, H., & Griswold L. L. P. (2015). Will SEC finally nix IFRS in the United States? http://www.lexology.com/library/detail.aspx?g=4a9271bc-0675-493f-ad99-5fc859227939

Cascino, S., & Gassen, J. (2015). What drives the comparability effect of mandatory IFRS adoption? *Review of Accounting Studies, 20*, 242-282. https://doi.org/10.1007/s11142-014-9296-5

De Franco, G., Kothari, S. P., & Verdi, R. S. (2011). The benefits of financial statement comparability. *Journal of Accounting Research, 49*(4), 895-931. https://doi.org/10.1111/j.1475-679X.2011.00415.x

De George, E. T., Li, X., & Shivakumar, L. (2016). A review of the IFRS adoption literature. *Review of*

Accounting Studies, 21(3), 898-1004. https://doi.org/10.1007/s11142-016-9363-1

Ekholm, B. G., & Troberg, P. (1998). Quo vadis true and fair view? *Journal of International Accounting, Auditing and Taxation, 7*(1), 113-129. https://doi.org/10.1016/S1061-9518(98)90009-X

FASB. (2012). International convergence of accounting standards- A brief history. http://www.fasb.org/cs/ContentServer?c=Page&pagename=FASB%2FPage%2FSectionPage&cid=1176156304264

Gordon, E. A., Jorgensen, B. N., & Linthicum, C. L. (2010). Could IFRS replace US GAAP? A comparison of earnings attributes and informativeness in the US market. (Unpublished working paper). Temple University, the London School of Economics and Political Science, and University of Texas at San Antonio https://www.researchgate.net/publication/256007555_Could_IFRS_replace_US_GAAP_A_comparison_of_earnings_attributes_and_informativeness_in_the_US_market

Harris, T., & Muller, K. (1999). The market valuation of IAS versus US-GAAP accounting measures using Form 20-F reconciliations. *Journal of Accounting and Economics, 26*(1-3), 285-312. https://doi.org/10.1016/S0165-4101(99)00003-8

Harris, T., Lang, M., & Moeller, H. P. (1994). The value-relevance of German accounting measures: An empirical analysis. *Journal of Accounting Research, 32*(2), 187-209. https://doi.org/10.2307/2491281

Hung, M., & Subramanyam, K. R. (2007). Financial statement effects of adopting International Accounting Standards: The case of Germany. *Review of Accounting Studies, 12*, 623-657. https://doi.org/10.1007/s11142-007-9049-9

IASB. (2012). The move towards global standards. http://www.ifrs.org/Use+around+the+world/Use+around+the+world.htm

Joos, P., & Lang, M. (1994). The effects of accounting diversity: Evidence from the European Union. *Journal of Accounting Research, 32*(3), 141-168. https://doi.org/10.2307/2491444

Land, J., & Lang, M. H. (2002). Empirical evidence on the evolution of international earnings. *The Accounting Review, 77*(4), 115-133. https://doi.org/10.2308/accr.2002.77.s-1.115

Lang, M. H., Maffett, M. G., & Owens, E. L. (2010). Earnings comovement and accounting comparability: The effects of mandatory IFRS adoption. (Unpublished working paper). University of North Carolina, University of Chicago, and Emory University. https://doi.org/10.2139/ssrn.1676937

Liao, Q., Sellhorn, T., & Skaife, H. (2012). The cross-country comparability of IFRS earnings and book values: Evidence from France and Germany. *Journal of International Accounting Research,11* (1), 115-184. https://doi.org/10.2308/jiar-10215

Lindahl, F. W., & Schadéwitz, H. J. (2009). US GAAP and IFRS: How close is "Close Enough"? (Unpublished working paper). George Washington University and University of Turku. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1413163

Ortega, X. (2017). The trade-off between accounting comparability and representational faithfulness with mandatory IFRS adoption. *The International Journal of Business & Management, 5*(3), *March 2017,* 170-184. http://www.theijbm.com/wp-content/uploads/2017/04/21.-BM1703-066.pdf

Soderstrom, N. S., & Sun, K. J. (2007). IFRS adoption and accounting quality: A review. *European Accounting Review, 16*, 675-702. https://doi.org/10.1080/09638180701706732

Tysiac, K. (2016). Why IFRS remains relevant in the U.S. http://www.journalofaccountancy.com/news/2016/dec/ifrs-faces-long-odds-in-us-201615633.html

Wang, C. (2014). Accounting standards harmonization and financial statement comparability: Evidence from transnational information transfer. *Journal of Accounting Research, 52*(4), 955-992. https://doi.org/10.1111/1475-679X.12055

Yip, R. W. Y., & Young, D. (2012). Does mandatory IFRS adoption improve information comparability? *The Accounting Review, 87*(5), 1767-1789. https://doi.org/10.2308/accr-50192