Title: **On the tetranormalization of US GAAP and IFRS: A socioeconomic approach**

Type: Paper

Contact: William L. Smith, CPA, CGMA, Ph.D.
Department of Management
MSC 3DJ / New Mexico State University
P.O. Box 30001
Las Cruces, NM 88003-8001
Office: (575)646-1422 / Fax: (575)646-1372
Email: smith@nmsu.edu

Authors:

William L. Smith
Department of Management
New Mexico State University
USA

David M. Boje
Department of Management
New Mexico State University
USA

Taylor W. Foster III
Professor Emeritus, New Mexico State University
USA
Visiting Professor, University of Canterbury
New Zealand

ON THE TETRANORMALIZATION OF US GAAP AND IFRS: A SOCIOECONOMIC APPROACH

William L. Smith
Department of Management
New Mexico State University
USA

David M. Boje
Department of Management
New Mexico State University
USA

Taylor W. Foster III
Professor Emeritus, New Mexico State University
USA
Visiting Professor, University of Canterbury
NEW ZEALAND

Abstract

The purpose of the paper is to consider a tetranormalization application in the accounting standards process of the U.S. and Europe. Tetranormalization is a theory proposed by Henri Savall and Veronique Zardet concerning the ways in which differences in accounting, human resources, environment, and trade standards pose problems for management. We summarize the history of the promulgation of accounting standards and question the representations and influences of the related constituencies. We find that those efforts have reached a number of impasses, and we propose a socioeconomic process for moving forward. Rather than continue to debate whose antecedent rules or principles have more merit, we suggest how to move to anteriority-events (occurring before coordinated action can occur). Our contributions are twofold. First, we demonstrate the need for intervention within the anteriority of intelligent action for convergent-interactions and second, we propose a tetranormalization intervention. The intervention beings with longitudinal trend analysis of comment letters by constituents to SEC and accounting associations in the U.S. and Europe. This answers the questions of how the SEC and accounting associations are answering (or not) varied constituent concerns. This is followed by interventions focused on creating joint activities among stakeholders using a socioeconomic approach of joint diagnosis, project development, implementation, and evaluation of results.

Key words: GAAP, IFRS, accounting, convergence, tetranormalization

INTRODUCTION

The Financial Accounting Standards Board (FASB) and the International Accounting standards Board (IASB) signed the Norwalk Agreement in 2002. They agreed to make their standards fully compatible as soon as possible with best efforts by both boards. Ten years later, IASB Chairman Hans Hoogervorst predicted that the Securities and Exchange Commission (SEC) would adopt International Financial Reporting Standards (IFRS) for U.S. issuers. "The U.S. ultimately will come on board," Hoogervorst said at the Ernst & Young IFRS Seminar. "Quite simply, they need us and we need them" (Tysiac, 2012). Six months later, after the SEC released its final staff report, not in support of convergence as envisioned by the IASB, Chairman Hoogervorst pushed back and urged the U.S. to get on board with IFRS. He stated, "We are at a pivotal moment for our organisation. The IASB has started working on a new agenda. The era of convergence is coming to an end. We are revamping our institutional infrastructure to provide for a more inclusive approach to international standard setting". Hoogervorst's statement seemed to imply that the U.S. could lose its influence over IFRS if it continues to resist supporting a transition to IFRS from U.S. GAAP, Generally Accepted Accounting Principles (Cohn, 2012).

The world is migrating towards a global economy where autonomous nations are becoming, in essence, one economy under standardized rules and conventions. As accounting is the language of business, there has been a push towards more standardized global accounting rules and conventions. While on the surface this may seem to be a plausible and realistic goal, the ultimate realization may not be easily attained.

The structure of this paper is to first develop a pragmatic theory of accounting standards, then review the background of the disagreement of nations on accounting standards, resituate the disagreement in Savall and Zardet's (2005) tetranormalization theory, and conclude with a proposal for a socioeconomic process of intervention projects that could bring about what we are calling the pragmatics of John Dewey's 'intelligent action" beyond the interactions of the standard setting boards and regulators to consider the constituencies they purportedly represent. We now turn to the pragmatic theory of intelligent action in the accounting standard setting process.

THEORY OF PRAGMATICS OF INTELLIGENT ACTION IN ACCOUNTING STANDARD SETTING

'*Storytelling Pragmatist Philosophy*,' is the pragmatism that changed storytelling itself after the late 18th and early 19th century American Pragmatist movements of William James, John Dewey, and Charles Sanders Peirce" (Boje, 2013: 9). Storytelling is defined in Boje (2001, 2007, 2008, 2011, and 2013) as comprised of dynamic antenarrative processes linking narratives, and those narratives to living stories. There are four kinds of antenarrative processes: linear, cyclic, spiral, and rhizomatic. Rosile, Boje, Carlon, Downs, and Saylors (2013) published a recent article on how storytelling methods vary by discipline. Our purpose is to develop a 'storytelling theory' suitable for accounting because accounting is a kind of 'pragmatic storytelling'. (Boje, 2013; Hacker, Boje, Nisbett, Abdelali, & Henry, 2013) We theorize that pragmatic storytelling varies between principles-based European and rules-based U.S. accounting approaches. The pragmatic ways of formulating accounting standards and the related storytelling methodologies differ. Nations draw upon different pragmatic assumptions which affect practices differently. The overview of storytelling appears in the diagram below. We will first provide a brief history and overview of four pragmatist standpoints: *Epistemic, Positivist, Ontologic, and Critical* (hereafter referred to as EPOC) as seen in Figure 1.

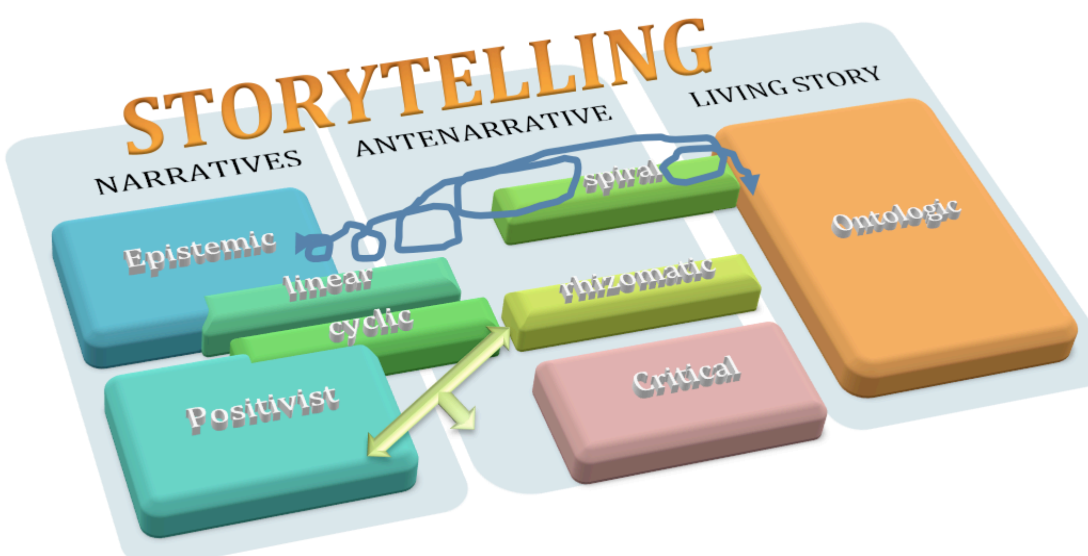

Figure 1: EPOC Pragmatist Storytelling Theory (adapted from Boje, 2013).

BRIEF HISTORY OF AMERICAN PRAGMATISM

Charles-Sanders Peirce's (1877-8, 1878) late 1880s work in developing a neo-Kantian pragmatist made its most epistemic formulations in 1905 and 1906, when Peirce responded to lectures by William James (1907) that were published later in book form. Initially John Dewey took up an epistemic standpoint, but after reading Werner Heisenberg's (1927) Principle of Indeterminacy with its observer effects, Dewey (1929) moved to an ontologic-pragmatist standpoint. Critical-pragmatism can be seen in the work of Kenneth Burke (1939), in particular his critique of Hitler's violent rhetoric, and his predictions that fascism would erupt into violent action. We assume accounting praxis in different countries has commensurate pragmatic ways of approaching standards. For example, a rules-based system takes a more positivistic (empiric spectator) observer approach, whereas a principles-based spectator system is more related to epistemic-pragmatism (general or universal principles that extend from ideas and concepts). The point is both rely on spectator detachment, rather than the kind of indeterminacy principle and observer effect Dewey (1929) developed in ontologic-pragmatism.

Four kinds of antenarrative processes make connections between the four kinds of EPOC pragmatism. Linear and cyclic antenarrative processes are theorized to connect epistemic and positivist-pragmatists, particular in narratives of the past. Spiral-antenarrative processes are theorized to relate epistemic and ontologic-pragmatism, while more rhizomatic-antenarrative processes are theorized to bridge positivist and critical-pragmatism. We hold out the possibility that there are non-linear antenarrative possibilities for addressing a history of U.S. and European attempts to converge differences in accounting standards. This brings us to tetranormalization theory and methods.

Boje and Rosile (2010: abstract) say, "Tetranormalization is a way of shaping the future. It is what we call 'antenarrative' a bet on the future, and something that is before narrative has stabilized. We suggest that antenarrative approaches that offer linear or cyclic (stage by stage) predictions of the future are not suited to the task at hand. An alternative is to look at spirals (where small beginnings have cumulative effects) and rhizomes (networks that develop every which way)." It remains to be seen if non-linear processes can be proposed and implemented that can assist with the current stalemate.

For example, Dewey's (1929: 43) ontologic-pragmatism focuses on "intelligent action" that can help with complexities and indeterminacies. Rather than dealing only with principles-based and rules-based differences, the strategy could be to address the ontologic-pragmatics of the standards, in particular situations. This could mean a cumulative integrating resulting from addressing intelligent action. Conditions chosen are *anteriority* of 'intelligent action' of actors coping with accounting indeterminacies and complexities in the ebb and flow of doing the work. Dewey addresses the "problem of intelligent action" (p. 43) by tying knowledge to activity, (practical behavior). He says the question is not just empirical, but rather the accounting standard process has its value in existence (ontologically). In the orthodox tradition, the epistemic (values) are treated as separate from positivist (empiric) concerns. Epistemic-pragmatism treats knowing as antecedent to action or worse as "Being independent of human action" some kind of "a revelation of antecedent existences or Being" (p. 44). The intelligent action treats knowing and action together as part of the 'anteriority' of Being. In other words, Being and knowing are combined in Dewey's ontologic-pragmatism, in order to find out "how authentic beliefs about existence as they currently exist can operate fruitfully and efficaciously in connection with the practical problems that are urgent in actual life" (p. 44). In sum, shared antecedents (knowledge of standards) are important; however, intelligent action places knowing and Being together, as inseparable in ontologic-pragmatism.

It is not by conformity of standards to some antecedent, rather it is by intelligent action employed by the parties in reaching standards "performed in the modification of conditions, including all the guidance that is given by means of ideas, both direct and symbolic: (Dewey,1929/1984: 160). The value of the standards depends on the method by which they are reached and "the perfecting of method, the perfecting of intelligence" (ibid). The development of standards has become habitual iterative methods reached in the U.S. and in European nations. It becomes complicated when habitual standards of habitual methods of one nation meet up with standards that are the basis of a method for dealing with a reality of Being independently of those operations (ibid).

We propose generating a revolutionary transformation in the impasse between the accounting standards processes of various nations by implementing a socioeconomic intervention in the "general pattern of experimental knowing" (Dewey, 1929/1984: p. 160). A way of addressing differences in the processes of developing, interpreting, and regulating standards must be consistent with the shift that has taken place in pragmatics from determinacy to indeterminacy. Dewey cites "Heisenberg's principle of indeterminacy" as a way to move beyond the Newtonian determinant and fixed system thinking of mechanical philosophy where antecedents, "fixed laws predict the subsequent course of events" and "the future and the past belong to the same completely determinate and fixed scheme" (pp. 160-161). A shift from mechanistic to quantum physics that not only the principle of indeterminacy, but also "the role of the interaction of the observer in determining what actually happens" (p. 161).

We assume here that the quantum elements of indeterminateness are intrinsic to the method of observation of the development of accounting standards. This method of standards development observation interacts with "the conditions under which an observation is possible" because antecedent existence in the quantum understanding is no longer fixed at the choice of particular standards which can then regulate subsequent accounting experience (Dewey, 1929/1984: p. 162). With each standard, in accordance with quantum principle, that observation of phenomena plays a role by means of touch, that ever so slightly modifies the thing the standard touches (paraphrase, p. 162). The standards as observations effect a displacement that we could calculate in theory, but Dewey states such a result would need to be confirmed by yet another observation (p. 162). "The effect of the last observation cannot be eliminated" (ibid). In other words, there is not a defect in the accounting standards process, rather the element of indeterminacy is not variance isolated from the act of observation itself. The ontology of existence is not isolated from accounting standards praxis. In a “spectator theory of knowledge” one only needs to be concerned with the accounting standard setting procedures as the setting of antecedents to govern the process of knowing (p. 163). Under quantum principle of indeterminacy and observer effect, the accountant is no longer a detached spectator whose act of observation has no effect, rather “the act of observation, necessary in existential knowing, modifies that preexistent something” (p. 163). Standards are not antecedently fixed in existence. Rather the act of observation is a part of the anteriority. Dewey's point about anteriority is that the act of observing is not divorced from the world out there; rather the implication is our accounting transactions have an effect in the world, in its anteriority.

Dewey (1929/1984; 196) distinguishes between blind and intelligent action. Blind action is reacting to antecedent conditions of a situation. Intelligent action is directed to "an achievement not an original endowment" (ibid). Intelligent action is defined here as embodied reflective awareness of the ebb and flow (rhythm) of an unfolding situation, as the basis of predicting a possible future course of action. Intelligent action is done with an awareness of the "multitude of varying changes" in anterior ways where standards of accounting for example are viewed as an "instrument of control" via antecedent conditions, anterior to the in situ choice unfolding (ibid, p. 197). "This issue, as a consequence of a cumulative integration of complex interactions, is such as to give anterior processes, a purposive meaning" (p. 197). Blind action, on the other hand, stems from a doctrine of knowledge where “fixed antecedent reality” (p. 200) standards are from the standpoint of detached observer, an accountant who is spectator to transactions or a member of a standard setting board who is a detached filter of his/her constituents. We turn now to the background on the quest to integrate standards.

BACKGROUND OF U.S. AND EUROPEAN ACCOUNTING STANDARDS

For many years nations developed their own national accounting standards. Some were more rules-based and others more principles-based. The United States developed rules-based GAAP, while in Europe principles-based IFRS eventually prevailed. The current standard setting body in the United States, the Financial Accounting Standards Board (FASB), has been in existence since the early 1970s; however, the development of GAAP predates the FASB. The push to develop and standardize accounting rules seems to have its beginnings shortly after the stock market crash of 1929. Since that time, financial accounting rules in the United States have been promulgated by three major rule-making bodies; the Committee on Accounting Procedure (CAP), the Accounting Principles Board (APB), and the FASB. Accounting standard setting in the United States has been and will continue to be a political process. Politics occurs between individual board members and groups of board members. In addition, accounting boards face a number of externalities such as changes in technology and markets, pressure from company executives and industry groups, and changes in the tax and security laws. Moreover, the promulgation of accounting rules in the U.S. has been affected by regulator interventions [e.g., the Securities and Exchange Commission (SEC)] and even Congressional legislation. Refer to Appendix A for further discussion of the history of U.S. GAAP.

The current standard setting body in Europe is the International Accounting Standards Board (IASB). In 2001, the IASB replaced its predecessor body, the International Accounting Standards Committee (IASC). After World War II, every country had its own set of national accounting standards. In several countries, tax laws mandated that companies declare dividends based on reported net income. This created an incentive for management to establish secret reserves by overstating expenses. Active equity capital markets existed in some countries; but, there were noticeable accounting differences[1] even among those countries with active capital markets. During this period, disclosures were lacking. The combination of weak disclosures along with national accounting differences made it difficult to compare the financial statements of cross-border companies (Zeff, 2012). In the early 1970s, the IASC was established via an agreement reached by the accountancy bodies from a group of nine major, developed countries. The IASC's objective was to issue "basic" standards, known as International Accounting Standards (IAS). The hope was that the IAS would lead to a worldwide harmonization of accounting standards and a reduction in the number of possible accounting choices. Harmonization meant the development of standards that could serve as a guide for national standards setters. Refer to Appendix B for further discussion of IASC/ IFRS history.

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 (FASB, 2012). Webster's dictionary defines the verb harmonize as "to bring into consonance or accord" and the verb converge as "to come together and unite in a common interest or focus".

The concept of convergence between the FASB and the IASB was formalized in 2002 with the Norwalk Agreement. While subsequent progress was made, there have been set backs. In fact, the two boards were supposed to have completed their major convergence projects by June 30, 2010, just in time for the retirement of the IASB's decade-long chairman Sir David Tweedie. He and FASB chairman Robert Herz had agreed in 2009 to redouble their efforts to achieve convergence in order to meet that deadline, which was set at a G-20 summit (Cohn, 2011). Despite the efforts by Leslie Seidman, Chairman of the FASB, and Hans Hoogervorst, Chairman of the IASB, potholes are ever present on the road to convergence. And, while both the FASB and IASB may envision the uniform standards destination, the potholes encountered along the migration road could undermine the entire process. We will next provide a summary of key developments in the convergence process followed by an illustration of an early collaboration effort for revenue recognition.

BRIEF HISTORY OF CONVERGENCE

The FASB (2013) convergence history of key developments between the IASB and FASB starting with the Norwalk Agreement of 2002 is summarized in Table 1 as follows:

2002 - The Norwalk Agreement: The FASB and IASB formally agree to collaborate
2003 - The SEC reaffirms the FASB as the U.S. private sector standard setter
2005 - SEC Staff Speech provides roadmap for elimination of the reconciliation Requirement
2006 - The FASB and IASB issue a Memorandum of Understanding elaborating on the Norwalk Agreement
2007 - The SEC proposes and subsequently eliminates the Reconciliation Requirement
2007 - The SEC issues a Concept Release on possible optional use of IFRS by U.S. issuers
2007 - The FASB responds to SEC's Concept Release on optional use of IFRS by U.S. Issuers

[1] For instance, some countries permitted PP&E write ups. In other countries, pooling of interests was commonly used.

2007 -	The FASB and IASB issue converged standards on business combinations
2008 -	The FASB and IASB update their Memorandum of Understanding
2008 -	The SEC issues roadmap to adoption of IFRS in the U.S. and optional early use of IFRS
2009 -	The Financial Accounting Foundation (FAF) and FASB issue their comment letter on the SEC's proposed roadmap
2010 -	The SEC issues a statement in support of convergence and global accounting standards
2010 -	The FASB reports on the status of project to improve & converge U.S. GAAP and IFRS
2011 -	The FAF and FASB provide feedback to the IFRS Foundation on its strategy review
2011 -	Report of the meeting of National Standard-Setters (NSS)
2011 -	Progress Report on IASB-FASB Convergence Work

Table 1 – Summary of Key Convergence Events.

There have been some significant developments between the FASB and the IASB since 2002 as seen in Figure 1. One of the initial convergence projects undertaken was a 2002 joint revenue recognition project pursuant to the Norwalk Agreement. Both Boards agreed to provide resources for collaboration efforts to include sharing related staff resources. The objectives of the joint project were as follows:

- Remove inconsistencies and weaknesses in existing revenue requirements.
- Provide a more robust framework for addressing revenue issues.
- Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
- Provide more useful information to users of financial statements through improved disclosure requirements.
- Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer (FASB, 2012).

The project began by simultaneously taking two interrelated approaches. Using a "top-down" approach, staff members developed conceptual guidance for the recognition and measurement of revenues. The aim of this approach was to establish the conceptual "backbone" of the new standard. Using a "bottom-up" approach, staff members analyzed the existing authoritative guidance of both the FASB and IASB regarding revenue recognition principles and practices. The objective of this approach was to identify which principles were "working" and, therefore, should be retained in the new standard (Gallistel, et al., 2012). Interestingly, the "bottom-up" approach initially seemed to exclude the respective constituents of both the FASB and the IASB. Perhaps this was due to the participative process of the Boards in developing accounting standards; however, constituent comments and concerns are typically introduced after a proposal is exposed rather than at inception.

Gallistel, et al. (2012) stated that after taking comment letters on the discussion paper of December 2008 and an initial exposure draft in June of 2010, the boards issued a revision of the proposal with "Proposed Accounting Standards Update (Revised), Revenue Recognition (Topic 605) – Revenue from Contracts with Customers: Revision of Exposure Draft Issued June 24, 2010." The new document left the basis of the proposal the same and simply added implementation guidance and a tentative date for adoption. While a participative and transparent process is clearly important, were all the concerns and related feedback included in arriving at a final document that was essentially unchanged? A binary "in favor" versus "opposed" may not elucidate the underlying rationale for the opinions provided. Further, understanding the reasoning of constituents to include their respective social structures and environments is important in developing standards.

The IASB and the FASB came into the convergence project on revenue recognition from vastly different starting points. Both entered the project with two main criteria for revenue recognition; however, this is where the similarities cease. The IASB's asset-liability approach recognizes revenue when there is a change in a firm's assets or liabilities related to the transaction. The FASB on the other hand entered the convergence project with a completion of the earnings process approach where revenue is recognized when the earnings process is complete or virtually complete (Gallistel, et al., 2012). Since substantial progress has been made to date in the area of convergence on revenue recognition, to the point where final approval is all but assured, further recommendation for convergence will be predicated on the assumption that the proposed standard will be adopted. Thus, recommendations will be made on how to make the new standard more useable to both IASB and FASB constituents and financial statement users (Gallistel, et al., 2012).

While there have been other areas of convergence, such as business combinations, there are some areas, such as the LIFO method of inventory, that remain diverged with little hope of convergence. Moreover, even where there is convergence, differences still remain. For example, in business combinations control is defined differently. The U.S. has a two-tier consolidation model: one focused on voting rights and the other is concerned with an analysis of power over significant activities and exposure to significant losses or benefits. All entities are evaluated to determine whether they are variable interest entities (VIEs). VIEs are consolidated whereas non-VIEs are assessed on the basis of voting and other decision making rights. The FASB's approach[2] is based more upon legal ownership and contractual obligations whereas the IASB's[3] approach is based more upon power and influence.

In sum, there has been significant progress made in convergence efforts since the initial Norwalk Agreement was signed; however, numerous fundamental differences remain. Many key developments included in Table 1 show SEC involvement from the start. The SEC has perhaps exercised more influence over both Boards than any other constituent. Recently, the SEC issued its final report that did not support convergence as envisioned by the IASB. Both the FASB and the IASB remain committed to U.S. GAAP and IFRS convergence; however, the SEC believes the U.S. should assume the dominant position. We will next briefly discuss the SEC position.

THE SEC WORK PLAN

The SEC issued its final staff report, "Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers" on July 13, 2012. The report stated future involvement as "Regardless of the outcome of the Commission decision on whether to incorporate IFRS, the Staff expects that the SEC and other U.S. constituents will continue to be involved with the development or application of IFRS, or both" (SEC, 2012, p. 1). While many reasons for not supporting IFRS convergence were provided, the SEC constituency was cited as not supportive (SEC, 2012, p. 3). The report stated that in the early stages of their convergence project study, it became apparent that pursuing the designation of the standards of the IASB as authoritative was, among other things, not supported by the vast majority of participants in the U.S. capital markets and did not appear to be consistent with the methods of incorporation employed by the other major capital markets around the world (SEC, 2012, p. 2). There were other problems cited such as the auditability and enforceability of IFRS as well as concerns over protecting the governance within the U. S. capital markets, which are currently controlled by the SEC.

---

[2] Control is defined as the direct or indirect ability to determine the direction of management and policies through ownership, contract, or otherwise. The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree ASC 810-10-15.

[3] An investor controls an investee if and only if the investor has all the following: (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the investor's returns and shall consider all facts and circumstances when assessing whether it controls an investee IFRS 10 revised.

While the SEC conceded the continuing growth and popularity of IFRS acknowledging that IFRS is used on some basis in more than 100 countries, there were still many challenges to both the FASB and IASB, including the recent financial crisis and shifting priorities of investors and regulators. In this final report, SEC staff referenced numerous comments such as those of Gregory Jonas, Managing Director of Morgan Stanley. Jonas expressed concern over the continued effectiveness of the Boards working jointly under the current structure (SEC, 2012, p 12). The report included concerns expressed to SEC by the LIFO Coalition who requested that the SEC provide a carve-out exception for LIFO accounting in the event that the SEC requires U. S. issuers to adopt IFRS (SEC, 2012, p. 16).

The staff report did express numerous constituent concerns regarding specific industry guidance and further, the problematic differences that exist from a rules-based versus principles-based foundation. In fact, an excerpt from a comment letter received was incorporated into the final report as follows:

> The international standards (IFRS) are widely viewed as less specific and providing less prescriptive guidance than U.S. GAAP (i.e., IFRS are more principles based), as well as more subjective primarily due to more use of fair value measurements. The downgrading of verifiability as a key concept guiding accounting standard setting and the resulting focus on fair value measurement significantly impairs the ability of an auditor to limit opportunistic actions of management and improve financial reporting (SEC, 2012, p.27).

In sum, three primary areas were expressed as potential for concern: (1) both IFRS and U. S. GAAP are in a state of change; (2) broad concerns expressed about the perception that IFRS is more principles-based than U. S. GAAP and lack interpretive guidance which could impact the sufficiency of IFRS for regulatory purposes; and (3) IFRS lacks industry-specific guidance in certain areas. While numerous SEC constituents may have expressed concerns, did the SEC fully convey those concerns or understand the underlying contexts in reaching their final decision? Even though the SEC final report mentions the concerns of some constituents, there is a question as to whether the SEC staff might have been opposed to convergence prior to undertaking the final report project. Further, did SEC staff fully understand why various constituents expressed concerns beyond principles-based standards for example?

The May 2011 SEC staff report, “Exploring a Possible Method of Incorporation”, sets forth numerous other issues and related concerns regarding the proposed convergence of U.S. GAAP and IFRS. There were many legitimate issues of concern expressed, especially with respect to the rules-based development of GAAP. The SEC stated:

> Although the goal of incorporation of IFRS through the framework would be full alignment of U.S. GAAP and IFRS, such alignment would be accomplished through the incorporation of IFRSs into U.S. GAAP, thus retaining “U.S. GAAP” as the basis of financial reporting for U.S. issuers. This would be significant following a transition to IFRS because of the current prominence of U.S. GAAP references in U.S. laws, contractual documents, regulatory requirements and guidelines, and other similar documents. By retaining U.S. GAAP as the basis of financial reporting for U.S. issuers, the complexities associated with changing all of these references to U.S. GAAP would be mitigated (SEC, 2011 p. 23).

Further, the SEC was supportive of a superior position for the FASB suggesting that the FASB would participate in the process for developing IFRS, rather than serving as the principal body responsible for developing new accounting standards or modifying existing standards under U.S. GAAP. The FASB would play an instrumental role in global standard setting by providing input and support to the IASB in developing and promoting high-quality, globally accepted standards; by advancing the consideration of U.S. perspectives in those standards; and by incorporating those standards, by way of an endorsement process, into U.S. GAAP (SEC, 2011, p. 8). The report went on to say that if the FASB were to exercise this authority, a U.S. “flavor” of IFRS could result.

While the SEC was supportive of a more dominant FASB in the development of IFRS, the report clearly stated that SEC would be actively engaged in the standard-setting process and with the broader activities of the IASB and its governance bodies. Further, the Commission would retain the ultimate authority to establish financial reporting requirements in those instances in which interpretative guidance is required or appropriate for U.S. constituents (SEC, 2011, p. 12). The question that still remains is whether or not the standard setting Boards and the SEC fully understands the antecedent underlying concerns of their respective constituents and fully convey and integrate those concerns within the standard setting process. We turn now to a discussion of what might be possible tetranormalization interventions in the impasse of accounting standards.

TETRANORMALIZAITON

From a Pragmatist Storytelling Theory (PST) standpoint, it appears that pragmatic actions to integrate accounting standards between the FASB and IASB that are being blocked. Next, we will provide a brief overview of PST and its implications for dealing with what Savall and Zardet (2005) term *tetranormalization.*

Tetranormalization attempts to find paths of integration for standards that have been thought to be rather incommensurate (accounting, trade, social, and ecological). Rather than a single focus of the rationality and application of the standard, the affected individuals and their behaviors and attitude constructed within their respective environments should be integrated into the process.

The focus of developing agreed accounting standards between U.S. and Europe has been on lobbying for antecedent rules and principles. This has included developing shared boards (FASB/IASB). We would like to develop a series for joint projects where anteriority (setting conditions for an anteriority). The anteriority we have in mind is what John Dewey (1929) calls intelligent action. "We always experience individual objects, but only the individual things which are fruits of intelligent action have in them intrinsic order and fullness of qualities" (ibid, p. 232). Intelligent action can be purposive action, if it arises into Being by specifiable social interaction between U.S. and European accounting stakeholders (para, p. 234). The question is what kind of projects and activities would result in the emergence of intelligent action in developing agreed standards? Can an "orderly social reconstruction: of accounting standards develop by an "institution of intelligent action" (ibid, p. 240)? There is some evidence that collaborative efforts can lead to intelligent action.

In looking at this EPOC pragmatist storytelling theory (PST), the four pragmatism of epistemic, positivist, ontological, and critical are seen as interdependent. Rather than an epistemic that treats knowing as separate from positivist (empiric) pragmatist standpoints, or separates ontologic- and critical-pragmatist from epistemic and positivist-pragmatism, we are suggesting an integrative approach, an 'and' (conjunctive) rather than an 'either/or' dualizing polemic standpoint. We will suggest that it is necessary to look at antecedent, as well as anteriority, and that this conjunctive approach may help the U.S. and European standard-setters and regulators move beyond their blocked (or what Dewey, 1929/1984: 196 calls 'blind') action to find 'intelligent action.'

	Focus	John Dewey defined	
POSITIVIST PRAGMATISM	ANTECEDENT	Fixed standards accepted as finalities Dewey (1929, pp. 251)	Blocked (Blind) Action
ONTILOGIC PRAGMATISM	ANTERIORITY	Consequence of cumulative integration Dewey (1929, pp. 247)	Intelligent Action

Figure 2 –Two of the Four Pragmatist Positions.

The double hermeneutic set forth by Norreklit (2006) provided reflective inner workings of two separate individuals while simultaneously enabling their respective outer impersonal communication. A reinterpretation of the concept of pre-understanding in a pragmatic or ontologically active perspective paves the way to a hermeneutics consisting of two types of hermeneutics circles, an inner or internal circle and an outer or external circle. The pre-understanding is thus the universal medium for meeting the world and the other (Norreklit, 2006). We adapted this double hermeneutic where understanding involves all three circles by replacing the individuals with the standard setting boards and their respective static outer communications as blocked whereby their respective standards are the end finalities based upon their separate antecedent standard setting processes. Reflexive understanding is created by the outer hermeneutic circle where one pre-understanding meets the other pre-understanding and they adjust to each other (Norreklit, 2006).

There are many types of hermeneutics; some epistemic approaches are structural, or searching for forms and functions by deductive logic. Others are more positivist (empiric) and employ a kind of inductive approach. Several kinds of ontologic hermeneutic methods are available, ranging from Heideggerian focus on Being-there (Dasein) to Merleau-Ponty's (1962, 1968) approaches that are less polemic, using an embodied approach to consciousness and experience, in more of the "and" (conjunctive) way that Dewey (1929) approaches ontologic-pragmatism. One way to understand the variety of hermeneutic approaches is to look at what happens when more than one hermeneutic interacts, such as in double hermeneutic models. This applies where fixed standards are accepted as finalities, by attending to epistemic-pragmatist antecedent standards, values and norms. Dewey (1929: 251) from an epistemic or empiric-pragmatist perspective, there are deductive or inductive assessments of antecedents. From the ontologic-pragmatist standpoint there is also a need to look at the middle, the anteriority.

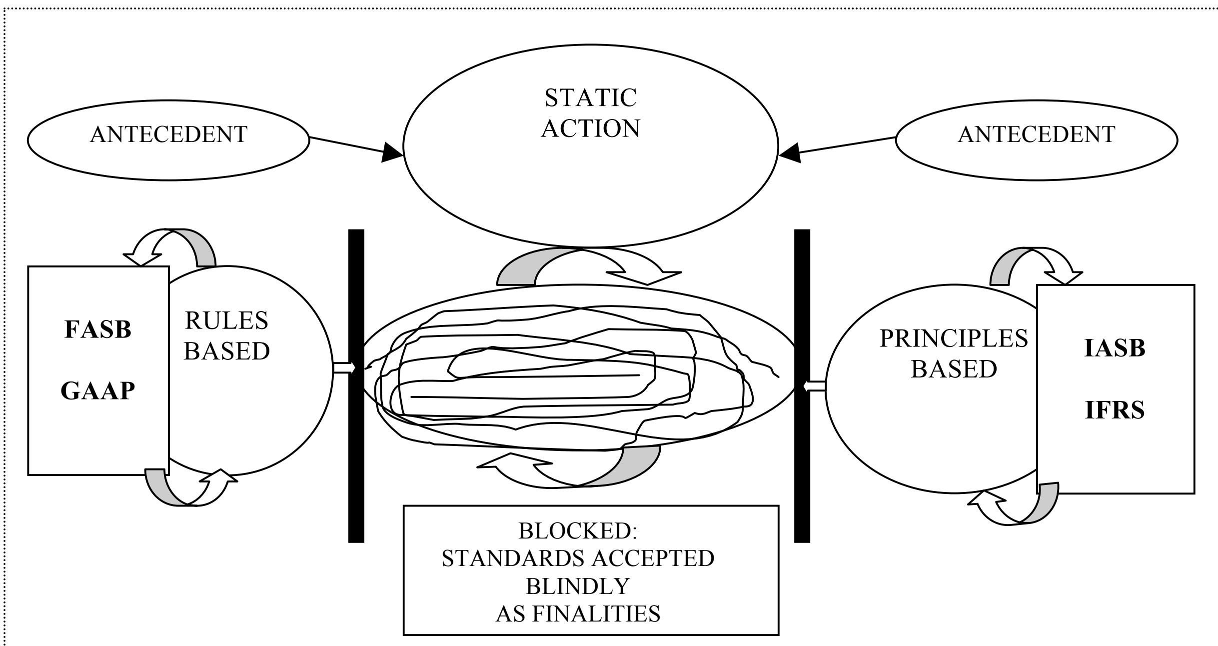

Figure 3 – Double Hermeneutics Blockage by Respective Antecedents.

In the above figure, the respective standard setting boards and regulators have focused on antecedent aspects of standards but have been blocked in terms of finding intelligent action, and have thus obtained only blind action. With fixed "rules based" antecedents underlying FASB standards and the fixed "principles based" antecedents underlying IASB standards, convergence is problematic. The respective histories and constituencies both Boards represent create a disharmonious anteriority resulting in stalemate. Prior to the 2002 Norwalk Agreement, these antecedents contributed to blockages as respective standards were accepted as finalities. The need for a more dynamic anteriority was necessary but without a shared understanding of respective antecedents of each Board, intelligent action would not occur; thus, the necessity for co-antecedents where rules-based and principles-based are both integrated by each Board as antecedent.

We want to move from blind action that has focused on antecedent (us versus them) to possible anteriority seeking of collaboration that is intelligent action. The "integration of divided purposes" (Dewey, 1929: 240) is a critical pragmatist focus. Dewey, for example, uses the term 'anterior' in relation to courses of events over a long time span that can disclose possibilities for integration of multiple processes:

> "This issue, as the consequence of a cumulative integration of complex interactions, is such as to give anterior processes a purposive meaning. Everything depends whether we take short-sections of the course of nature in isolation, or whether we take the course of events over a span of time sufficiently long to disclose the integration of a multitude of processes toward a single outcome" (Dewey, 1929: 236).

We propose a triple hermeneutics approach, where the move is from co-antecedent debate to developments of intelligent action anteriority by disclosing integrations of multiple processes that occurs in a shared dialogic space-time of shared responsibility projects.

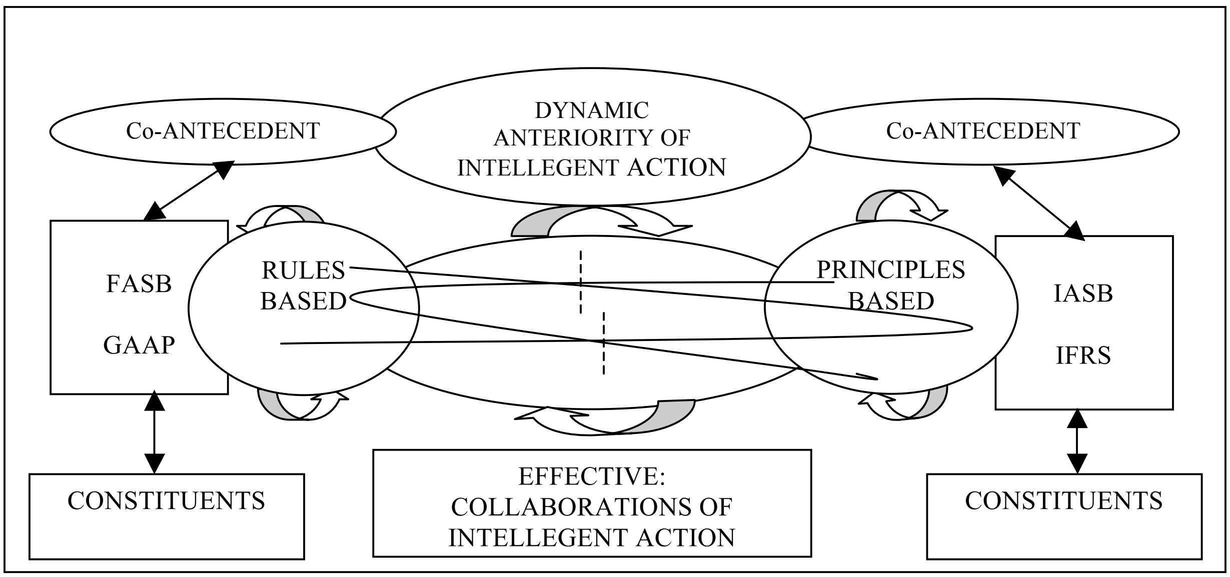

Figure 4 – Triple Hermeneutics Spiral of Effective Collaborations.

In this figure, there is a spiral of anteriority, as transactions occur between FASB/GAAP and IASB/IFRS institutions. There is a third hermeneutic process connecting between that of the hermeneutics of standards interpretation and regulation employed by respective nations. The benefit of triple hermeneutics is that it addresses the middle of Figure 4, the 'anteriority' of ontologic-pragmatism, rather than the traditional path of dualizing epistemic-from positivist-pragmatism. In this way it is possible to foreground antecedent positioning with the anteriority of intelligent action. From the storytelling theory perspective there could be antenarrative pathways other than the linear (if-then) perspectives, such as spiral-or rhizomatic-antenarratives.

Both the FASB and the IASB have due process procedures that are designed to incorporate the viewpoints of their constituents. However, formal feedback occurs after initial drafts are written and exposed for public comment. Prior to that time, individual board members are lobbied by various interest groups on behalf of a desired outcome. The results of this process are not perfect and might not reflect user views as well as possible. Moreover, the nature of the various constituent groups differs across countries. The FASB's focus is on present and potential investors and creditors. Its primary concern is with reporting requirements for companies whose securities are listed on exchanges. In the U.K., some 600,000 companies are subject to audit requirements. As a consequence, U.K. rule makers need to be more attentive to the cost of imposing standards on middle-sized and small companies. In other countries, creditor protection is more important than a focus on present and potential investors. In a similar fashion, in some countries, the interests of employees are an important consideration (Zeff, 1995). We turn next to tetranormalization, as a possible way of facilitating interaction pragmatically by deploying a more intervention based spiral-antenarrative process.

TETRANORMALIZATION INTERVENTION PROPOSAL

Tetranormalization (Savall & Zaret, 2005) is a call for those setting standards in accounting, trade, human relations, and environment (including quality) to deal with contradictions and uncertainties between standards as practiced by different nations. Tetranormalization then evolved into a book written in French (Barthe, Bessire, Boje, Cappelletti, Pesqueux, Pigé, & Zardet, 2010). Our focus here is on the accounting standards that differ between U.S. and Europe. We will suggest that in the socioeconomic approach Savall, Zardet, and Bonnet (2008). Specifically, they propose that a series of diagnostics, projects can be created, implemented, and evaluated in ways that result in upward momentum as seen in Figure 5.

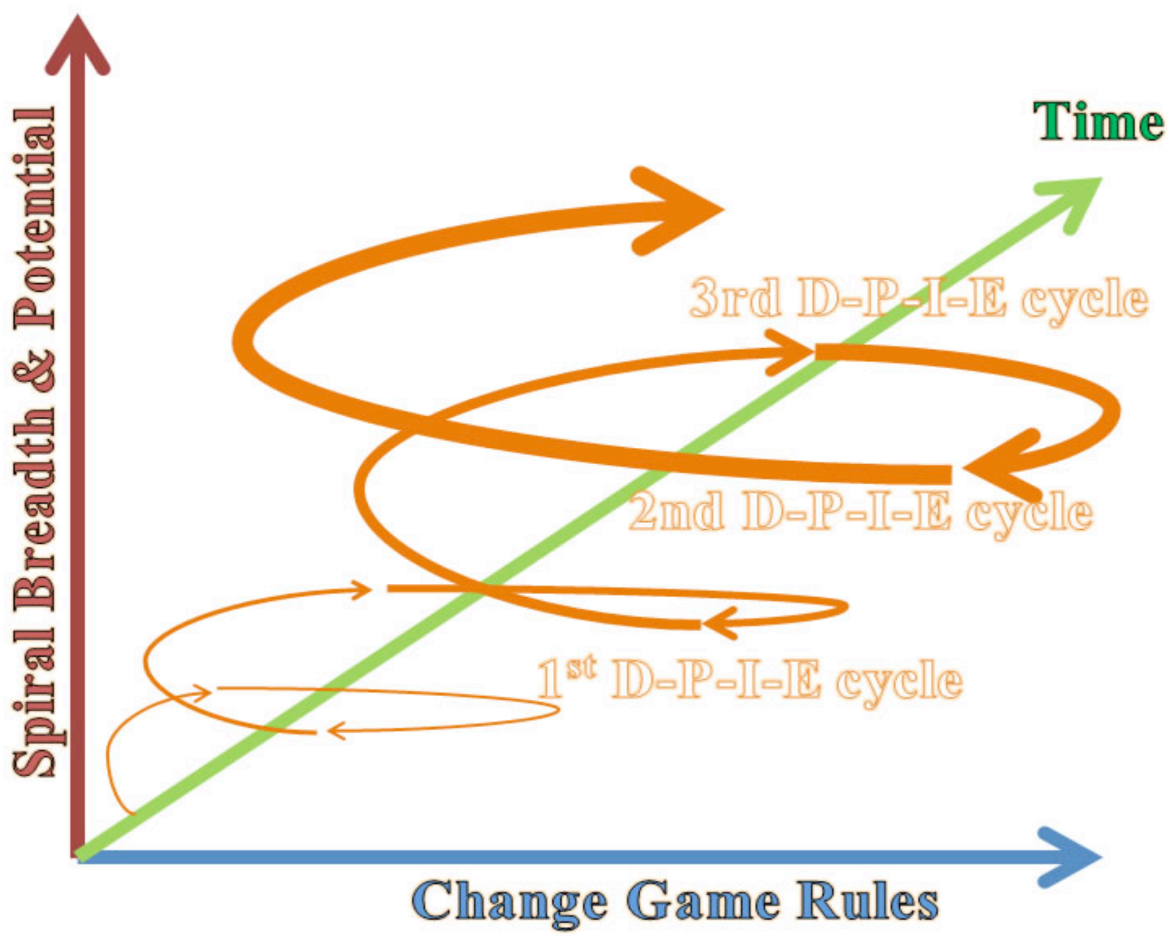

Figure 5 – Diagnostic-Project-Implementation-Evaluation Cycles that together form a Spiral of momentum.

In Figure 5, we have modified Savall, Zardet, and Bonnet's (2008: 64-92) Diagnostic-Project-Implementation-Evaluation (D-P-I-E Cycle) of socioeconomic intervention so that there are a series of interventions resulting in a spiral of momentum. A cycle repeats the same steps, whereas a spiral has momentum from one D-P-I-E to the next. Compared to other intervention methods, they demonstrate it is more effective "to synchronize different projects" implementing them "using a global and carefully coordinated approach" (Savall et al., 2008: 64). The diagnostic could reveal dysfunctions of accounting standard setting using both qualitative and quantitative analyses, and presenting those findings to representatives of the FASB and the IASB who represent and are answerable to their respective constituents. The collaboration and negotiation could continue in the project phase to experiment with improvement processes to address diagnosed dysfunctions in accounting standards. While the views of constituents are expressed by board members in the standard development process, those views are nevertheless filtered. Perhaps ethnographies of all the constituent feedback of proposed standards could be performed; "The project groups foster communication and negotiation between the different participants" (ibid, p. 67). In the implementation phase of the project, actions are selected that create potential improvements. The evaluation of results consists of analyzing effects of the changes to standards, in a learning process that continues into the second diagnosis, project, implementation, and evaluation (D-P-I-E). What is needed is to move out of a linear, if-then, antecedent-consequence, mentality into a spiral process as depicted in the figure.

Ontologic-pragmatist, Merleau-Ponty (1962/2005: 162) says "If we project on to the screen the post-image of a spiral revolving round its centre, in the absence of any fixed framework, space itself vibrates and dilates from the centre to the periphery." However, spirals are not all revolving around a centre axis as seen in Figure 6.

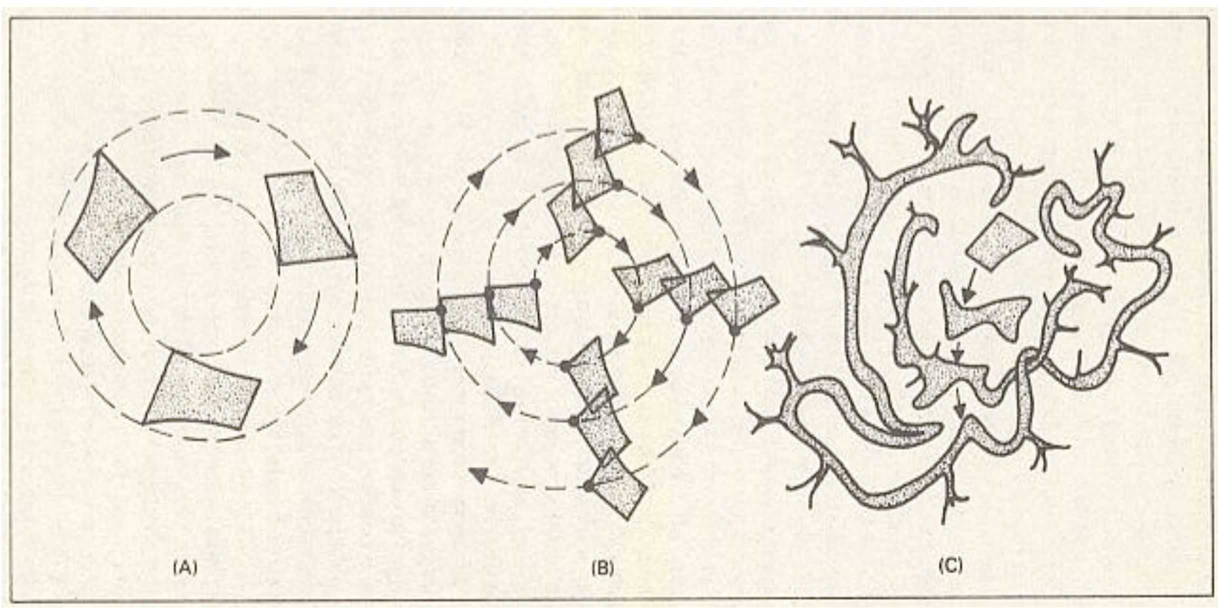

Figure 6 - From Dynamics of (A) Cyclic-, (B) Spiral- to (C) rhizomatic-antenarrative processes (adapted from Prigogine & Stengers, 1984: 265-7 by Coveney & Highfield 1991, *The Arrow of Time; reprinted from Boje, 2013: 120, by permission*)

Prigogine and Stengers (1984) discuss how a cycle of sameness can become a spiral, and losing central axis of symmetry become what we are calling a rhizomatic-antenarrative process as seen in Figure 6. Currently, spiral (B) perhaps best represents the IASB/FASB convergence. While progress has been made, periodic divergences arise. Ideally, a spiral of convergence would develop as illustrated by spiral (A) in Figure 6; however, the possibility for a more chaotic divergence as illustrated by spiral (C) can result. How could the quest for accounting standards agreed upon between nations move from cyclic to spiral, and even rhizomatic process? For example, could the FASB-GAAP and IASB/IFRS develop a series of joint projects with regard to standards, where by moving from one project where rather than stalemating on antecedents, they move into anteriority of how standards work pragmatically when they are changed, and implemented?

We envision this as a move from separatist double hermeneutics of U.S. and European accounting institutions, into a spiral of dynamic intelligent action, focused on anteriority as seen in Figure 7.

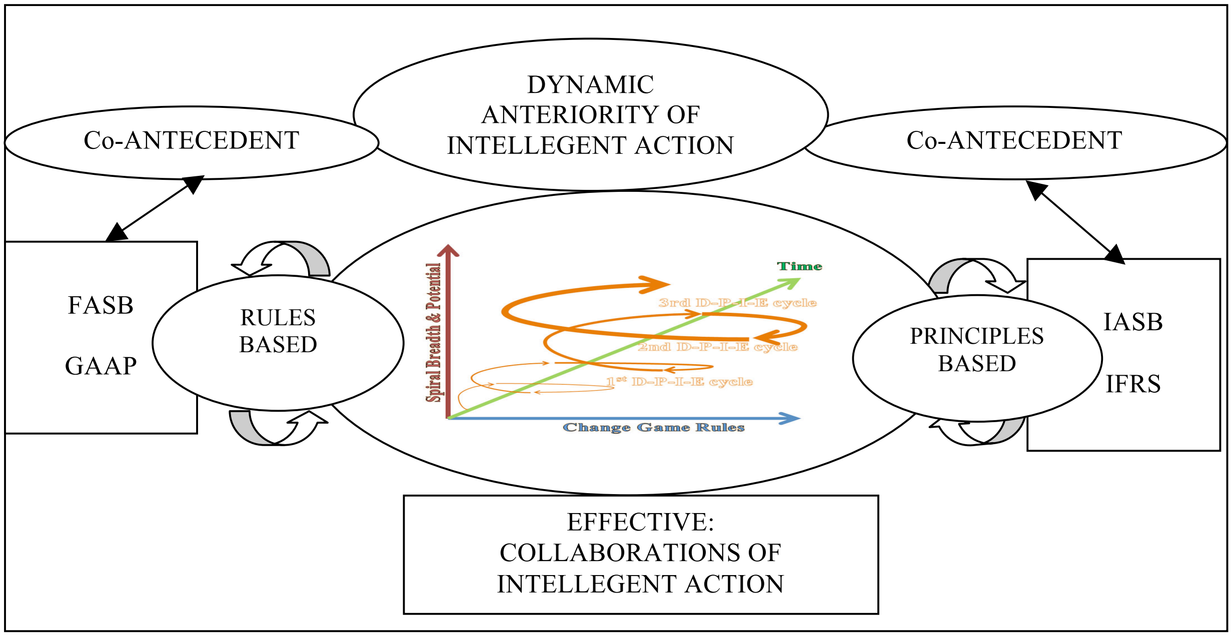

Figure 7 – Triple Hermeneutics Spiral of Tetranormalization.

Figure 7 above, shows an example of three successive D-P-I-E cycles of negotiation and collaboration between FASB/GAAP and IASB/IFRS. We view this as a process of triple hermeneutics spiral, and a path towards effecting tetranormalization. We suggest this process will need active facilitation by a third party, since currently there is an "us vs. them" orientation, at least from the SEC's perspective, who wants to maintain final control. Despite progress towards convergence, set backs are ever present. And while both the FASB and IASB remain committed to a convergence goal, objections and concerns solicited by constituents including the SEC, block progress.

The FASB and the IASB must represent their respective constituents but we raise the possibility that constituent concerns may not be fully understood. The standard setting process includes both Boards soliciting feedback from their constituents when exposure drafts of proposed standards or changes are released for review and comment. After the comment period is closed, letters received in opposition or support of the proposal, are addressed. Further, concerns of constituents are brought by both Boards for consideration, but underlying concerns for support or opposition may not fully be understood. Successful interventions involve addressing the concerns of all the parties involved in the process.

Tetranormalization considers human behaviour and the environment in addition to a standard itself thereby providing insight beyond the rationale of the standard. While our paper considers intelligent action by the standard setting Boards, the influence of their respective constituents affects the collaboration in the anteriority. An ethnographic analysis of all the comment letters received from all the constituents may provide further understanding of the rationale antecedent to the influence. Moreover, the filtered responses by the Boards would be removed and thereby a deeper and richer understanding may be achieved. This understanding could then be integrated earlier in the process where constituent concerns would already be considered rather than at the exposure draft stage. Once we understand the constituency, standards may better address underlying concerns as a result and collaboration leading to convergence and harmonization may be possible.

CONCLUSION

In conclusion, it appears to us, that the U.S. is blocking collaborative attempts on any sort of equal pragmatic ground of adjusting standards. The result is what Dewy (1929) the ontologic-pragmatist, calls blind action, a debate over whose antecedent standards will prevail. We proposed a series of socioeconomic projects that could bring U.S. and European accounting standards into a working relationship by focusing on the pragmatics of intelligent action.

We envision a process where experiments in standards worked out by negotiated agreement between U.S. and European accounting institutions takes place. We recognize our audience is much greater than just Europe. It is a worldwide audience. For instance, it includes countries and geographical interest groups. Hyperinflation is a concern for the Group of Latin American Standards Setters (GLASS), led by Brazil, Argentina and Mexico. Accounting bodies from approximately twenty-five countries formed the Asian-Oceanian Standard-Setters Group (AOSSG). Also, accounting for extractive industries is important in individual countries, including: Australia, Canada, Norway, and South Africa. Moreover, the World Bank has helped to persuade developing countries to adopt or converge toward IFRS. Our point is that successful gains towards convergence between FASB and IASB with respect to U.S. GAAP and IFRS as we set forth may be extended to other countries.

The critical pragmatist approach we are suggesting is to develop cumulative integration of standards by an anterior process of joint diagnosis, project design, implementation, and evaluation of shared courses of action that are sufficiently long in span to disclose integrations of currently divergent accounting processes and standards. We have proposed a triple hermeneutics model to understand how a cumulative integration of the varied accounting standards can move toward a unified outcome. In this way tetranormalization of US GAAP and IFRS may provide a new path towards convergence.

REFERENCES

Barthe, N., Bessire, D., Boje, D. M., Cappelletti, L., Pesqueux, Y., Pigé, B. & Zardet, V. (2010). Les paradoxes de la Norme en matière de Responsabilité Sociale et Environnementale d'Entreprise, en France.*Tétranormalisation: la Normalisation dans tous ses états*, 103-110.

Bloomfield, R. J. (2008). Accounting as the language of business. *Accounting Horizons,* 22 (4), 433-436.

Boje, D. M. (2001). Narrative Methods for Organizational and Communication Research. London: Sage.

Boje, D. M. (2007). Globalization antenarratives. Pp. 505-549, Chapter 17 in Albert Mills, Jeannie C. Helms-Mills & Carolyn Forshaw (Eds). Organizational Behavior in a Global Context. Toronto: Garamond Press. Available at: http://peaceaware.com/vita/paper_pdfs/Chapter%20Globalization%2017%20old%20version%20-%20Boje.pdf.

Boje, D. M. (2008). Storytelling Organizations. London: Sage.

Boje, D. M. (2011, Ed). *Storytelling the Future of Organizations: An Antenarrative Handbook*. NY/London: Routledge.

Boje, D. M.; Rosile, G. A. (2010). Ethics and the wings of tetranormalization: Agential realism ontology proposal. This is a book chapter in The French version of the book onTetranormalization, *Les paradoxes de la Norme en matière de Responsabilité Sociale et Environnementale d'Entreprise, en France*, edited by Savall et al.; chapter in French, L'éthique et les ailes de la tétranormalisation: Proposition ontologique du réalisme agentiel; English version of the chapter available at: http://peaceaware.com/pdfs/Wings%20of%20Tetranormalization%202010.pdf.

Boje, D. M. (2013). Pragmatist Storytelling for Management. Draft of book to be released by London: Routledge.

Burke, K. (1939). "The Rhetoric of Hitler's 'Battle'," reprinted in *The Philosophy of Literary Form,* 3rd ed. (1941; Berkeley: University of California Press, 1973), pp. 191-220.

Burton, J.C. (1971). An educator views the public accounting profession. *The Journal of Accountancy,* 132 (3), 47-53.

Camfferman, K., and Zeff, S. A. (2007). Financial Reporting and Global Capital Markets: A History of the International Accounting Standards Committee, 1973–2000. Oxford, U.K.: Oxford University Press.

Cohn, M. (2012). IASB urges SEC to come on board with IFRS. *Accounting Today,* Available at: http://www.accountingtoday.com/news/iasb-sec-ifrs-caq-icaew-63307-1.html.

Coveney, P. V., & Highfield, R. (1991). The arrow of time: A voyage through science to solve time's greatest mystery. NY: Fawcett Columbine. Available at: http://www.metafysica.nl/ontology/general_ontology_29m5.html

Dewey, J. (1929). The Quest for Certainty: A Study of the Relation of Knowledge and Action. New York, NY: J.J. Little and Ives Company.

Dewey, J. (1929/1984). Vol. 4: 1929 The Quest for Certainty. Jo Ann Boydston (ed.), with introduction by Stephen Toulmin, John Dewey: The Later Works, 1925-1953). Carbondale & Edwardsville, IL: Southern Illinois University Press. 1929 is date of original, 1984 the edited volume.

FASB. (2012). *Revenue Recognition—Joint Project of the FASB and IASB.* Available at: http://www.fasb.org/cs/ContentServer?site=FASB&c=FASBContent_C&pagename=FASB/FASBContent_C/ProjectUpdatePage&cid=1175801890084.

FASB. (2013). *International Convergence of Accounting Standards—A Brief History.* Financial Accounting Standards Board, Norwalk, CT.

Gallistel, D. J., Phan, T., Bartlett, G. D., Dodd, J. L. (2012). IASB & FASB Convergence Project - Revenue Recognition. *Drake Management Review, Vol 2 (1),* 36-51.

Hacker, K. L.; Boje, D. M.; Nisbett, V. I.; Abdelali, A.; Henry, N. (2013). Interpreting Iranian Leaders' Conflict Framing by Combining Latent Semantic Analysis and Pragmatist Storytelling Theory. Paper submitted to the Political Communication Division of the National Communication Association, March 27, 2013, for the Washington DC annual conference, November 2013. Available at: http://peaceaware.com/vita/paper_pdfs/PragmatistStorytellingTheoryIranSpeechesMarch27final.pdf.

Heisenberg, W. (1927). Über den anschaulichen Inhalt der quantentheoretischen Kinematik und Mechanik. *Zeitschrift für Physik A Hadrons and Nuclei*, Vol. *43*(3), 172-198. Available at: http://people.isy.liu.se/jalar/kurser/QF/references/Heisenberg1927.pdf.

James, W. (1907). *Pragmatism: A New Name for Some Old Ways of Thinking*. NY: Longmans.

Llena, F., Moneva, J. M., & Hernandez, B. (2007). Environmental disclosures and compulsory accounting standards: the case of Spanish annual reports. *Business Strategy and the Environment*, *16*(1), 50-63.

McGregor, W. (2012). Personal reflections on ten years of the IASB. *Australian Accounting Review,* 22 (3), No. 62, 225-238.

Merleau-Ponty, Maurice (1962/2005). *Phenomenology of Perception*. Translated from the French by Colin Smith. NY/London: Routledge & Kegan Paul. 2005 refers to Taylor and Francis e-Library edition Accessed October 15 2012, Available at: https://wiki.brown.edu/confluence/download/attachments/73535007/Phenomenology+of+Perception.pdf?version=1&modificationDate=1286305678000.

Merleau-Ponty, M. (1965/2003). *Nature: Course notes from the Collège de France*. Northwestern University Press. Lectures delivered 1965, put into book form 2003.

Merleau-Ponty, M. (1968/1995**).** *The Visible and the Invisible***.** Evanston: Northwestern University Press. (1995 is second edition).

Nobes, C.W. (2006). The survival of international differences under IFRS: towards a research agenda. *Accounting and Business Research,* 36 (3), 233-245.

Norreklit, L. (2006). The double hermeneutics of life world. *Danish Centre for Philosophy and Science Studies,* No. 5, 1-12. Available at: http://vbn.aau.dk/en/publications/the-double-hermeneutics-of-life-world(32f99740-d5d2-11de-bb13-000ea68e967b).html.

Pacter, P. (2005). What exactly is convergence? *International Journal of Accounting, Auditing and Performance Evaluation,* 2 (1/2), 67-83.

Peirce , C. S. (1877–1878), "Illustrations of the Logic of Science" (series), *Popular Science Monthly*, vols. 12–13. Available at: http://en.wikisource.org/wiki/Popular_Science_Monthly/Volume_12/March_1878/Illustrations_of_the_Logic_of_Science_III.

Peirce , C. S. (1878). *How to Make Our Ideas Clear*. Cambridge, MA: The MIT Press/A Bradford Book. Available at: http://146.230.128.54/undphil/collier/308/Peirce/Peirce's%20_How%20to%20Make%20Our%20Ideas%20Clear.pdf.

Peirce, C. S. (1905). What pragmatism is. *The Monist*, Vol. *15* (2): 161-181.

Peirce, C.S., (1906). Pragmatism in retrospect: a last formulation, reprinted in: Philosophical writings of Peirce, Peirce 1955, pp 269-89.

Pines, J. A. (1965). The Securities and Exchange Commission and Accounting Principles. *Law and Contemporary Problems,* 30, 727-751.

Prigogine, I., Stengers, I. (1984). *Order Out of Chaos*. Foreword by A. Toffler. Toronto/London/Sydney/NY: Bantam Books.

Rosile, G. A.; Boje, D. M.; Carlon, D.; Downs, A.; Saylors, R. (2013). Storytelling Diamond: An Antenarrative Integration of the Six Facets of Storytelling in Organization Research Design. *Organizational Research Methods*, Forthcoming copy available at: http://peaceaware.com/vita/paper_pdfs/Storytelling_Diamond_ORM.pdf.

Sartre, J. P. (1956). *Being and Nothingness*, trans. NY: Hazel E. Barnes -Philosophical Library.

Savall, Henri & Zardet, Véronique. (2005). Tetranormalisation: Défis et Dynamiques. Paris: Economica.

Savall, H.; Zardet, V.; Bonnet, M. (2008). *Releasing the Untapped Potential of Enterprises Through Socio-Economic Management.* London: International Labor Organization and Socio Economic Institute of Firms and Organizations.

Securities and Exchange Commission. (2011). *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers.* Available at: http://www.sec.gov/spotlight/globalaccountingstandards/ifrs-work-plan-paper-052611.pdf.

Securities and Exchange Commission. (2012). *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers,* Final Staff Report. Available at: http://www.sec.gov/spotlight/globalaccountingstandards/ifrs-work-plan-final-report.pdf.

Schipper, K. (2005). The introduction of international accounting standards in Europe: implications for international convergence. *European Accounting Review,* 14 (1), 101-126.

Tysiac, K. (2012). IASB's Hoogervorst predicts SEC will adopt IFRS. *Journal of Accountancy,* Available at: http://www.journalofaccountancy.com/Web/20125039.htm.

Zeff, S. A. (1995). A perspective on the U.S. public/private-sector approach to the regulation of financial reporting. *Accounting Horizons* 9 (1) 52-70.

Zeff, S. A. (2003). How the U.S. accounting profession got where it is today: part I. *Accounting Horizons,* 17 (3), 189-205.

Zeff, S. A. (2012). The evolution of the IASC into the IASB, and the challenges it faces. *The Accounting Review,* 87 (3), 807-837.

APPENDIX A

Brief History of US GAAP

Prior to the 1930s, the United States did not have laws or regulations that required companies to provide audited financial statements. After the U.S. stock market crashed in 1929, the U.S. Congress tried to boost investor confidence with the passage of the Securities Acts of 1933 and 1934. The Acts were designed to regulate financial reporting. In so doing, they created the Securities and Exchange Commission. The SEC has influenced the development of GAAP ever since.

The SEC took a somewhat active role in the formulation, and the revision of accounting principles until the end of 1945. After 1945, the Commission, at the urging of the accounting profession, generally permitted the private sector to undertake the formulation and dissemination of accounting principles (Pines, 1965). In the late 1930's, The SEC wanted the private sector to provide the Commission with "substantial authoritative support" for sound accounting practices.

Those practices that had substantial authoritative support were deemed to comprise generally accepted accounting principles. At the urging of the SEC, the AICPA (formerly the American Institute of Accountants) formed two special committees, the Committee on Accounting Procedure (CAP) and the Committee on Accounting Terminology.[4] The purpose of the CAP was to issue accounting pronouncements (guidance) and to establish a research department. During its tenure, the CAP issued 51 Accounting Research Bulletins on a variety of accounting topics; however, CAP Bulletins were only recommendations and were not binding on the membership of the Institute. The CAP was criticized for its inability to secure agreement on difficult topics. In response, the AICPA formed a Special Committee. The efforts of the Special Committee paved the way for the establishment of the Accounting Principles Board (APB).

In 1959, based on the recommendations of the Special Committee, the AICPA formed the APB and the Accounting Research Division. The objectives of the APB were: (1) to advance the written expression of what constitutes generally accepted accounting principles, (2) to determine appropriate practice and to narrow the areas of difference in practice, and (3) to lead in the thinking on unsettled and controversial issues. When the APB was formed, the Chairman of the SEC urged the new board to make the difficult decisions to narrow the areas of difference and inconsistency in practice.

[4] The Committee on Accounting Terminology attempted to narrow the diversity of accounting terms. For instance, the committee recommended that the term retained earnings be used instead of earned surplus.

The APB quickly faced unanticipated problems because of the passage of a new tax law, the Revenue Act of 1962. The APB was still in its infancy and was not prepared for the political turmoil that was about to result from the new tax legislation. In addition, the 1960s was also a period that involved scandals and lawsuits. The APB's response was to close loopholes in order to reduce misleading financial reporting. However, the result was increasingly long, complex, and legalistic Opinions. These precise rules made it possible for companies and auditors to observe the letter of the rule but avoid the spirit (Burton, 1971).

Throughout the 1960's, closer relations were established with industry and user groups as the APB implemented several organizational and procedural changes. The 1960s also evidenced growing concerns about the independence of auditors and the related audit opinions rendered because of consulting services and "opinion shopping" to arrive at the desired accounting with an unqualified opinion (Zeff, 2003). In response to increasing criticism, the AICPA commissioned two major studies. One dealt with the process for the establishment of accounting principles. It was chaired by former SEC Commissioner Francis M. Wheat ("Wheat Study"). The second study addressed the objectives of financial statements and was chaired by a former AICPA President, Robert M. Trueblood ("Trueblood Study").[5]

The Wheat Study recommended that a full-time Financial Accounting Standards Board be established under the auspices of a Financial Accounting Foundation (FAF). In fact, the FASB is funded by the trustees of the Financial Accounting Standards Advisory Council, which generally oversees the activities of the FASB. Members of the FASB are drawn from representatives of the AICPA, the Financial Executives Institute, the National Association of Accountants, the Financial Analysts Federation, and the American Accounting Association. The FASB initially had seven full-time, paid members versus eighteen part-time, voluntary members of the APB. FASB members are required to sever all ties to previous firms and institutions to ensure impartiality and independence. All FASB members are selected by the FAF. The FASB is an independent body, not a committee of the AICPA. In sum, many of the problems faced by the CAP and the APB were mitigated.

The FASB's pronouncements are Statements of Financial Accounting Standards (SFAS) [6]and are issued after a fairly extensive due-process procedure. In addition, the FASB issues staff positions (initially Technical Bulletins), in order to communicate the views of its staff on implementation issues. Staff positions are issued with limited due process. In the early seventies, the FASB initiated its Conceptual Framework, a project to develop a sound theoretical basis for the development of accounting standards in the United States. Concepts Statements are non-mandatory and are intended to provide theoretical guidance.

In 1984, the FASB formed the Emerging Issues Task Force (EITF). The EITF was designed to minimize the need for the FASB to spend time and effort addressing narrow implementation, application, or other emerging issues that can be analyzed within existing GAAP. Task Force members are drawn from a cross section of the FASB's constituencies, including auditors, preparers, and users of financial statements. The SEC is involved as the chief accountant or the deputy chief accountant of the Securities and Exchange Commission attends Task Force meetings regularly as an observer with the privilege of the floor. The SEC's chief accountant generally has accepted EITF consensus positions as authoritative support. Similar floor privilege is also granted to the chairman of the Financial Reporting Executive Committee (FinRec) of the AICPA, and to a designate of the IASB.

While GAAP has evolved over the years, the legitimacy of the standard setters and the increased participation of stakeholders have increased. In addition, the number of industries and the related increase in technical issues has also added to the complexity in setting accounting standards. The SEC has increasingly been involved throughout the development of accounting standards. Its influence has both shaped standards as well as

---

[5] Possibilities for rule-making authority other than the APB were considered such as a federal Accounting Court and a United Nations approach to accounting codification. These possibilities were dismissed as unworkable. The government sector did not want to take on the assignment of financial accounting rule making. Industry was not organized to assume the task of defining principles.

[6] Accounting Series Release 150 that states that FASB Statements and Interpretations have substantial authoritative support and those contrary to the FASB promulgations are considered to have no such support.

the standard setting process resulting in authoritative legitimacy of the FASB. This may be effective in developing U.S. GAAP but such influence may not be applicable in international venues and may even undermine the collaboration efforts of the FASB and the IASB.

APPENDIX B

Brief History of IFRS

The IASC was mostly a part-time body.[7] It used steering committees with volunteers from a number of countries to manage projects and develop exposure drafts. Each country was represented on the IASC by a delegation[8] of, at most three members, including one staff observer. Board meetings were conducted in English. Consequently, some board members had to discuss technical accounting issues in a second language. Each delegation had one vote and a three-quarters majority was required to approve exposure drafts and final standards. The votes on exposure drafts and standards were not reported and dissenting views on final standards were not published. The IASC's interpretative body was the Standing Interpretations Committee (SIC).

By design, IASs typically contained a number of free choices, primarily because the members from a number of the countries wanted to maintain the accounting practices used in their own countries. The idea was to develop broad, principles-based standards so that they would not conflict with national standards. Unfortunately, the IASs were somewhat ad hoc, primarily because it took almost twenty years for the IASC to develop a conceptual framework (Pacter, 2005). A breakthrough occurred when the International Organization of Securities Commissions (IOSCO) [9] approached the IASC with a proposal that if the IASC would significantly improve its standards,[10] the IOSCO would recommend to its regulator members that they accept the use of IASs by foreign issuers; however, IOSCO members would still be able to require certain disclosure items, including a reconciliation from IAS to local GAAP. Noteworthy, the IASC invited both the FASB and the European Commission (EC) to send a non-voting guest to board meetings. As a result, the FASB and the EC accepted the invitation and began to take an active interest in the work of the IASC.

In the early nineties, standards setters from the U.K., U.S., Canada, and Australia began meeting quarterly with their staffs on issues that they expected to come before the IASC. The group came to be known as the G4 +1. The plus one was a representative from the IASC. From 1994-2000, the G4+1 published 12 papers on various topics including: hedge accounting, business combinations, leases, and share-based payments. While these papers were insightful, they were not authoritative. In the United States, the SEC was closely following the activities of the IASC. In a press release dated April 11, 1996, the SEC said that "three key elements" needed to be reflected in IASC standards in order to obtain the SEC's acceptance: (1) the standards must include a core set of accounting pronouncements that constitutes a comprehensive, generally accepted basis of accounting; (2) the standards must be of high quality—they must result in comparability and transparency; and they must provide for full disclosure; and (3) the standards must be rigorously interpreted and applied. This was the first use of the phrase "high quality" in discussions of standards and the standard-setting (Camfferman and Zeff, 2007, pp. 332).

In February 2000, the SEC raised the bar when it issued a concepts release on international accounting standards. The SEC felt that high quality accounting standards must also be supported by an infrastructure that ensures that the standards are rigorously interpreted and applied. The elements in that infrastructure included the

[7] Some travel costs were reimbursed by the employers of IASC board members; however, the brunt of the financial burden was shouldered by the sponsoring national accounting bodies. As accounting bodies in other countries became associate members, some of the cost burden was borne by the sponsors of the new members.
[8] Initially, the American Institute of Certified Public Accountants was the sponsor for the United States delegation. Subsequently, the Financial Executives Institute and the Institute of Management Accountants co-sponsored the U.S. delegation.
[9] IOSCO is a confederation of securities market regulators of the largest capital market regulators in the world.
[10] Significant improvement meant that the IASC was to eliminate accounting alternatives, insure that financial statements are sufficiently detailed and complete, and insure that the financials contain adequate disclosure requirements.

following: (1) effective, independent, and high quality accounting and auditing standard setters, (2) high quality auditing standards, (3) audit firms with effective quality controls worldwide, (4) profession-wide quality assurance, and (5) active regulatory oversight.

In May 2000, IOSCO was satisfied with the IASC's progress and recommended to its regulator members that they permit multinationals to use the IASC's core standards in financial statements contained in cross-border listings and offerings of securities. IOSCO permitted regulators to impose three supplementary treatments[11] to address outstanding substantive issues: (1) a reconciliation of certain items to show the effect of applying that item versus IASC standards, (2) additional disclosures, and (3) specifying the use of a particular alternative or interpretation where the IASC standard is unclear or silent. IOSCO's endorsement added creditability to the IASC as a standard setter. In June 2000, the European Parliament and the Council of the European Union approved an accounting regulation that required all European companies (including banks and insurance companies) listed on a stock exchange in the EU to follow IASC standards in their consolidated financial statements by 2005.[12] This provided a base of over 6,500 companies that would eventually use international standards.

The EU's accounting regulation created a procedural problem in that there was no precedent for a private-sector organization to create rules (that are constantly changing) that are then thrust upon EU-listed companies. This concern was addressed by the creation of two groups. First, a private-sector body, the European Financial Reporting Advisory Group (EFRAG), was established to provide feedback to the EU (and the IASC) about the acceptability of a proposed accounting regulation. Second, the European Commission created the Accounting Regulatory Committee (ARC), composed of representatives from all of the member state governments. After the Commission receives favorable advice at the technical level from the EFRAG, it submits the proposed standard or interpretation to the ARC for advice on its "political" acceptability. The ARC provides a vehicle where users can express their concerns that a standard or interpretation, if endorsed, would be excessively costly to implement or would create adverse consequences for a national economy (Zeff, 2012).

The IASC leadership felt that if it restructured itself, other major players might come on board. Moreover, a restructuring might assist with investor and regulator confidence so that, in the future, the board would be perceived as a high-quality standard setter.[13] The IASC set up a working party and charged it with the creation of a more effective standard-setting body. Two possibilities arose for IASC restructuring: (1) the independent expert model, and (2) the representational model. The SEC and the G4+1 favored the independent expert model and the continental European countries and the European Commission favored the second approach. The former approach emphasizes independence and technical expertise with a small number of mostly full-time board members. The latter approach focuses on the key constituents and broad consensus, with a larger number of mostly part-time board members. Those supporting the first approach won the battle, but may have lost the war (McGregor, 2012).

The restructured body was known as the International Accounting Standards Board (IASB). Trustees of the IASB's oversight body, the IFRS Foundation, were drawn from diverse geographic and functional backgrounds. Trustees were to (1) raise funds; (2) appoint the members of the board, an interpretations committee, and a standards advisory council; and (3) monitor the board's effectiveness. The IASB made it clear that it was not interested in developing standards that contained detailed rules nor was it interested in having an interpretations body issue numerous interpretations of its standards. Accountants would be expected to exercise judgment in applying broad principles and would be able to rely on few formal interpretations (McGregor, 2012).

The IASB has no power to require an entity or country to use its standards. However, when a country or region embeds IFRS into its laws, it foregoes some its sovereignty, and politics emerges. When the EU's adopted the accounting regulation, it added a technicality that the IASs be individually or collectively 'endorsed' for use

[11] IOSCO's supplemental treatments were similar to those used by the SEC when evaluating a registrant's financials.
[12] The lead by the EU was followed by countries elsewhere in the world.
[13] A part-time body with volunteer-based steering committees was inconsistent with the notion of a high-quality standard setter.

in Europe.[14] EU-based companies are to report that their statements are in accordance with IFRS, as adopted by the EU. This is not exactly the same as IFRS as adopted by the IASB. There are some exceptions or "carve outs" to IFRS regulations (see below).[15] Even if a company is in compliance with IFRS as adopted by the IASB, translation differences occasionally arise. For instance, IAS 41 requires an unconditional government grant related to a biological asset to be recognized as income when the grant becomes receivable. The Norwegian translation is 'mottas', which means 'received' (Nobes, 2006).

The IFRS Foundation's constitution requires that the trustees review the constitution every five years. During the first review, in 2005, the trustees identified three areas of concern: (1) board membership, (2) voting, and (3) due process. Some felt that the Board was too technical and too insistent about introducing fair value into the standards. In response, the criterion for board membership was changed from "technical expertise" to "professional competence and practical experience." Next, trustees felt that the voting requirement should be changed from a simple majority to nine out of fourteen members. The last area reviewed was the board's due process. The original due process contained a limited number of mandatory steps, such as issuance of an exposure draft and a number of non-mandatory steps such as the issuance of a discussion paper on major projects, public hearings, and field tests.

The board now has to (1) undertake a more formal process when adding a topic to its agenda, (2) issue a feedback statement for every new IFRS or major amendment to an IFRS, (3) issue an effects analysis for every forthcoming new IFRS or major amendment to an IFRS and (4) undertake post-implementation review—normally every two years after every new IFRS or major amendment to an IFRS. In addition, the trustees formed a due process oversight committee to monitor the board's adherence to the new due process procedures. In sum, there is a standard setting process that has developed over time. Similar to the standard setting process of the FASB, the IASB carefully considers stakeholder feedback and the need for transparency in developing sound accounting principles. Interestingly, the SEC has increased its involvement and influence with the IASB.

---

[14] Subsequent EU legislation provides that non-European companies whose securities are listed in a regulated European securities market generally must also follow IFRS.

[15] The Federation of European Accounting (FEE) strongly encourages companies to provide an explanation in the notes of any differences between their accounting policies and IFRS as issued by the IASB. FEE also recommends that companies affirm whether they are in compliance with full IFRS.