Convergence: Challenges, Controversies and Collaboration

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Introduction

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David Van Zandt*

Accountancy is a venerable profession. The need to record and quantify wealth and transactions is credited with having caused the development of written language, in Mesopotamia during the fourth millennium B.C. From that day to this, accountants have labored to document increasingly complex financial arrangements. The standards they have developed over time to govern and standardize their work have likewise become more complex. Accounting standards, like the written language, diversified soon after their invention. Twentieth-century accounting standards differed dramatically between nations, hindering transnational business activity and investment.

A six-thousand-year period of accounting Babel is poised to end. The International Accounting Standards Board (IASB) seeks to create a global set of accounting rules. Its International Financial Reporting Standards (IFRSs), promulgated with the specific goals of worldwide understandability and enforceability, are being adopted by a growing number of jurisdictions. On January 1, 2005, IFRSs became the law of the European Union, home to one quarter of the world’s market capitalization. The IASB is also working with national standard setters, such as the U.S. Financial Accounting Standards Board and the Accounting Standards Board of Japan, to revise IFRS in tandem with national rules, seeking to bring the different sets of standards closer to comparability. The IASB’s long-term

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goal is convergence; it will be achieved when every major market either requires IFRSs for corporate financial statements or treats them as an acceptable equivalent.

The economic potential of the global convergence of accounting standards can hardly be overestimated. At bottom, multinational companies will slash their accounting budgets, while competing for capital anywhere in the world. But the true effects of convergence will be felt by investors, who at last will be able to easily comprehend and compare the financial health of companies the world over. They will have the tools to make more prudent investment decisions than ever before. The world’s supply of capital will be allocated with optimal efficiency. The global capital market will be an unprecedented dynamo of prosperity.

The progress toward convergence represented by the trend of the adoption of IFRSs and by cooperation between the IASB and national standard setters is the foremost topic in finance today. Its prominence stems not only from the potential of convergence, but also from the controversies and challenges it has engendered. First, the IASB’s independence from any government, coupled with its growing power, has resulted in great interest in its structure. Second, its attempts to create and maintain high-quality accounting standards—that is, standards that require companies to provide accurate and detailed information in their financial statements—have resulted in accusations that some IFRSs present economically unrealistic demands. Third, simply making the switch to IFRSs from other accounting standard regimes is a daunting task for corporate decision-makers, auditors and accountants; in some instances, preparers of financial statements must start over from scratch, building new reporting practices in order to accommodate fundamental differences between old standards and IFRSs.

I am proud of this Symposium issue. The Northwestern Journal of International Law and Business has brought together seven outstanding commentators on the possibilities, complexities and controversies of convergence. Designating them as “commentators” may not be appropriate, for some of these individuals are not simply observers, but the lead actors in a worldwide drama whose outcome will decide the future of countless corporations and government entities, and affect the world’s economic policy of the twenty-first century. That observation applies most directly to Sir David Tweedie, the chairman of the IASB. Some have called him the world’s most powerful accountant; others have declared him to be the most hated. No one can doubt, however, his ambitious determination to create an entirely new system of financial reporting. Sir David’s vigorous pursuit of a new system—and, more impressively, his pursuit of its acceptance by regulators and preparers everywhere—provides the IASB with an energy that must surely stupefy the bureaucrats of the national standard setters. Quite simply, there is no person anywhere better qualified to comment on
the convergence of accounting standards than Sir David. He and IASB Operations Director Thomas Seidenstein have submitted an enthusiastic argument for reconciliation and transformation, leaving little doubt that the next few years will be momentous ones for global commerce.

I am proud of this issue for a second reason: the ideas herein contained will make the Symposium a definitive and defining document in accounting-standards literature. I am eager, particularly, to see the world’s reaction to the observations of Professor David S. Ruder, whose contribution forms the foundation of the Symposium. Professor Ruder, a former SEC chairman and one of my predecessors as Dean of the Law School at Northwestern University, has found a new way of evaluating the debate over whether the need for accounting standard setters to be independent of influence from the business interests whose operations they affect should outweigh the need for them to be representative of every interested constituency. Most advocates of independence condemn any attempt at all by business interests to direct the development of accounting standards, claiming that it will ruin the standards’ quality and (in the case of IFRSs) prevent convergence. But Professor Ruder may have found the crucial middle ground: he draws a distinction between the international standard setting level and the endorsement level in the imposition of IFRSs, and points out that independence may not be as crucial on the endorsement level as on the standard setting level. A third reason for my excitement over JILB’s Symposium lies in my hope that it will be of practical use. Of most interest to accounting practitioners will be the contribution of KPMG partner Mary Tokar. Her discussion of the challenges of transition posed to the accountancy profession adds a practical dimension to the Symposium that prevents it from being, in any sense, a purely academic exercise.

Finally, I am very pleased that the Symposium has brought together perspectives from the decision-makers of some of the world’s most prominent national regulators. Dr. Alexander Schaub, Director-General of Internal Markets for the European Commission, discusses the mechanics of the European Union’s unprecedented full-scale adoption of the entire suite of IASB standards. Dr. Schaub’s contribution is mirrored by pieces from SEC Chief Accountant Donald Nicolaisen and U.S. Financial Accounting Standards Board chair Robert Herz. Collectively, these pieces describe the challenges and convergence possibilities of the U.S. cooperation with the IASB. Professor Mitsuru Misawa completes the picture by providing a Japanese economic and cultural perspective on IFRSs. His contribution provides a helpful example of the challenges the IASB and national standard setters must overcome to achieve convergence across diverse business environments.

The Symposium, most appropriately, encompasses the three most developed economies—the United States, Japan and Europe. JILB owes a special debt of gratitude to Professor Ruder, whose global contacts and
laborious recruitment efforts are responsible for the presence of the great majority of the Symposium's contributors.

This Symposium is a perfect example of the growth and importance of interdisciplinary studies for legal academia. Law and business intersect wherever financial reporting is discussed. At this particular intersection, the volume of traffic will soon be growing exponentially. My desire is for this volume to serve as one of the first road maps for a very important interdisciplinary intersection.

David Van Zandt
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