FASB AND IASB CONVERGENCE: ASYMPTOTIC RELATIONSHIP OR TRANSMOGRIFICATION?

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ABSTRACT

Much work has been done and many papers and articles written about the possibility of U.S. GAAP converging with the international financial reporting standards (IFRS) or at least of the U.S. firms adopting IFRS as an alternate reporting format for listed firms. This paper reexamines the discussion in light of the recent issue of ASC 606 (revenue recognition) and revisits several reasons that neither convergence nor adoption may be achieved. These reasons include the belief that U.S. GAAP is the gold standard for reporting, that too many groups and people are involved in the rule-making process, that there are too many choices for a resolution to the convergence issue, and that the innate belief that principles based and rules based statements are irreconcilable. The conclusion of this paper is that pure convergence will never be achieved, and that IFRS and GAAP will tend to grow closer as time passes, but asymptotically.

INTRODUCTION

For almost the past sixty years various accounting entities have been discussing and working toward the possibility of a single global set of accounting principles, and much has been written over the years regarding the attempts at both convergence with and adoption of international standards by various countries. The movement toward these international standards accelerated in 2001 when the International Accounting Standards Board (IASB) was formed, and further in 2002 when IASB and the Financial Accounting Standards Board (FASB) decided to work together. According to the AICPA IFRS Resources (AICPA 2014) at this point there are 90 countries that have fully adopted the international standards with another 30 permitting their use for listed companies, and others such as Japan discussing their own convergence plans. However, the United States is still working on, and hopeful for, convergence rather than adoption. This paper discusses some reasons that neither convergence nor adoption of the international accounting standards by the United States have been attained.

THE CHRONICLES OF CONVERGENCE

Well before 1973, in the 1950s, accounting entities from various countries were considering and discussing a possible uniform set of international accounting standards as commerce became more global and more cross-border transactions and consolidations were taking place. Interestingly, the first textbook on international accounting, *International Accounting* by Gerhard Mueller, was published in 1967, six years before the formal creation of the International Accounting Standards Committee (IASC.)

In 1973 nine countries, including the United States, formed the International Accounting Standards Committee. Their plan was to create international accounting standards (IAS) that could be used by firms in different countries to make their reporting more comparable across nations and across borders. In 2000 they decided to reorganize to make the standard setting body more formal, and so in 2001 they were replaced by the International Accounting Standards Board (IASB.)

Many countries other than the United States, including Fiji, Moldova, and Tajikistan, to name a few, have directly adopted the International Financial Reporting Standards (IFRS) created by IASC and IASB for their public companies. The European Union countries adopted IFRS with some modifications, called carve-outs. However, the United States Financial Accounting Standards Board (FASB) chose in 2002 to work on a convergence project with IASB (Norwalk Agreement) rather than a full adoption of the IFRS, although the latter has remained a possibility as well.

To aid the convergence of FASB and IASB standards, the two bodies issued a Memorandum of Understanding in 2006 to lay out a plan for this convergence as a series of projects revising both FASB and IASB standards on similar topics so the treatment for both IFRS and GAAP would essentially be the same. They modified the document in 2008, revised the work plan in 2010, and have made some progress by issuing a variety of new standards including the most recent, detailing new revenue recognition rules.

In 2007 the Securities and Exchange Commission (SEC) decided to consider allowing United States firms listed on U. S. exchanges to use IRFS as an alternate reporting form to U.S. generally accepted accounting principles (GAAP). However, the Financial Accounting Foundation (FAF) and FASB both felt that allowing a dual system of reporting would be too complex and costly to the firms, and possibly confusing to users of financial information. More recently, in 2010, the SEC reiterated the appeal of a single global set of accounting standards, and in 2012 reported on "specific issues relevant to the Commission's determination as to where, when and how the current financial reporting system for U.S. issuers should be transitioned to a system incorporating IFRS." (Financial Accounting Standards Board 2013). This study analyzed the effects of using IFRS for U.S. firms, but made no recommendations. To date there is not a definitive answer as to whether the SEC will allow U.S. listed firms to use IFRS as an alternate reporting method.

SO, WHAT'S HAPPENING!!

As the AICPA (2014) so succinctly puts it:

> Despite a belief by some of the inevitability of the global acceptance of IFRS, others believe that U.S. GAAP is the gold standard, and that a certain level of quality will be lost with full acceptance of IFRS. Further, certain U.S. issuers without significant customers or operations outside the United States may resist

IFRS because they may not have a market incentive to prepare IFRS financial statements. They may believe that the significant costs associated with adopting IFRS outweigh the benefits.

Gold Standard or Brass Ring?

In 2010 Marie Leone wrote, “[I]n the United States, … many preparers believe U.S. GAAP is the gold standard of accounting rules and should remain intact.” In 2011, in an article discussing delays in the U.S. convergence project, Dena Auben pointed out that some feel that U.S. rules are more relevant to U.S. firms than are the international standards. Moreover, the article quotes Andy Bishop, chief financial officer at Hallador Energy Co as calling U.S. GAAP “the gold standard of the world” and Bishop asks, "If it's not broken, why fix it?"

This sentiment seems to be pervasive in the new FASB statements (those issued after the Norwalk Agreement in 2002) as well as the older rules. For example, while the treatment of accounting for inventory is basically the same both internationally and in the U.S., many U.S. firms still prefer to use Last In First Out (LIFO) for financial reporting although IFRS does not allow the use of LIFO. U.S. firms choose LIFO for a variety of reasons. Some claim that LIFO yields a more realistic view of cost of sales, since the most recently purchased (or manufactured) goods are expensed first and thus are expensed at close to current cost. Others enjoy the tax benefits LIFO provides when prices are rising, and cite tremendous book losses if they were required to switch to another cost flow method, because their LIFO reserves would be depleted. And, of course, the LIFO conformity rule requires that firms using LIFO for tax reporting must use LIFO for financial reporting as well.

In May 2014, IASB and FASB released Accounting Standards Codification (ASC) 606, the new converged statement on accounting for revenue recognition, and still after years of working together on this project there are subtle differences between the IASB and FASB applications that could not be resolved. One difference concerns the “explicit collectability threshold [that is] one of the criteria that a contract must meet before an entity can recognize revenue. For a contract to meet that criterion, an entity must conclude that it is probable that it will collect the consideration to which it will be entitled” for that sale. (Financial Accounting Standards Board 2014). IASB defines “probable” as more likely than not, while FASB refuses to give up its definition of probable as almost certain.

The treatment of impairment losses in ASC 606 is another difference between IFRS and GAAP. Consistent with IAS 36, *Impairment of Assets,* the international standard requires impairment losses be reversed if values increase, while the U.S. standards do not allow reversal of impairment losses. Why is the FASB so adamant about this? Perhaps because this is consistent with their other rules on asset impairment, even though it is not consistent with either IASB impairment rules in general or the new converged international standard. This attitude underscores the idea that at least some rule makers feel the GAAP is more valuable or at least more useful for U.S. firms than the international standards.

Not everyone agrees that the U.S. standards are superior. For example, a 2008 article in the *Economist* states, “GAAP was the beancounter's gold standard for decades, but it is now widely seen as cumbersome.” (Author unknown). A reader identified as GA_Chris responded to the 2011 Auben article with “U.S. GAAP is full of ‘bright line’ rules that enable companies to legally present their books in a favorable light. Lots of progress has been made since Enron, but the fact remains that the system is too dependent on input from large companies that oppose anything that provides too much transparency. IFRS is not yet ready to be the gold standard, but it’s closer to being so than U.S. GAAP.”

Despite their differences, both subtle and blatant, FASB and IASB continue working toward convergence. The SEC is continuing to approve the work of convergence, is allowing foreign firms to list on U.S. exchanges while reporting using IFRS rather than restating their financials using GAAP, and is considering allowing U.S. firms to report under IFRS. This indicates that at least some rulemaking bodies, both private and governmental, feel that the international standards are as relevant to, useful for, and equal if not superior to GAAP for financial reporting for listed U.S. firms. However, as long as some details in the two sets of standards remain different, complete convergence will not be achieved.

Too Many Cooks Spoil the Broth

Who are the players in the U.S.GAAP/IFRS convergence/adoption game? Obviously the FASB and IASB are key. Also involved are the SEC, the AICPA, FAF, and most recently (since 2013) the Accounting Standards Advisory Forum (ASAF) whose function is to “improve cooperation among worldwide standard setters and advise the IASB as it develops International Financial Reporting Standards (IFRS).” (Financial Accounting Standards Board 2013). FASB is one of the members of this new committee.

It is believed that the more members a committee has, the more difficult it is to get anything done. The convergence project has many committee members: seven on FASB and 14 on IASB, requiring a majority out of 21 people to agree on each issue. Look, for example, at the new rules on accounting for financial instruments, on which FASB and IASB have been working**.** IFRS 9, *Financial Instruments*, is the IASB response to the financial crisis of 2008. Note that the crisis occurred six years ago, and IASB and FASB have been working on a statement that would address this issue, but even after six years they could not agree on certain terms – the accounting for credit losses. According to Elliott Welton, “Due to fundamental disagreements on how impairments should be modeled, the two bodies diverged and set out to issue their own standards relating to the calculation of the ALLL [Allowance for Loan and Lease Losses]. “(Welton 2014). IASB issued IFRS 9 on July 24, 2014, and FASB is still working on their version of the standard. Critics believe that since the two Boards cannot come to a consensus, this will adversely affect international banks which will now have to keep records using two different sets of rules, which is what the convergence project was supposed to eliminate.

The original MOU had an expectation that convergence (or at least significant progress toward it) would be achieved by 2011. It is now 2014 and the project is nowhere near completion. Yes, many new FASB statements and IFRS have been proposed and issued, but there are still more on the agenda. ASC 606, the new converged statement on revenue recognition, has just been issued, but it took 12 years since the MOU just to resolve the treatment of this topic, which has been on the conversion timeline since 2002.

The main focus of this new standard is to break sales contracts with customers into individual performance obligations such that revenue is recognized when a performance obligation is fulfilled. FASB believes this standard is better than the myriad of industry specific standards that it will be replacing under GAAP. Also, the disclosure requirements are more stringent and straightforward. However, not everyone is happy with the new standard as academicians, particularly in the area of auditing, argue that this will make auditing revenue recognition much more difficult. Moreover, lest one believe that FASB was 100% in favor of the new standard, the Financial Accounting Foundation reports that "the amendments … were adopted by the affirmative vote of five members of the Financial Accounting Standards Board. Mr. Schroeder dissented and Mr. Kroeker abstained." (Financial Accounting Foundation, 2014).

The SEC, as mentioned above, is another important player in this conversion/adoption debate. Even if FASB and IASB agree on an issue, the SEC must still approve the new standards for listed firms. Aside from conversion, the SEC is still wavering on whether, when and how to allow U.S. listed firms to adopt IFRS for their external reporting. The advantage, according to Auben (2011) is, "Big multinational firms like Ford and IBM, which use IFRS for their businesses overseas, would no longer have to keep separate books to report in the United States." However, one may briefly forget that the firms themselves as well as investors are stakeholders and thus players, providing input to the SEC, FASB and IASB on their opinions.

While outright adoption of IFRS would benefit the large multinational firms, the smaller listed firms who do little or no business outside the United States would find the switch to IFRS very costly with probably little benefit. For these firms, conversion may be a better approach to the international standards issue in the U.S. since they may adopt new accounting principles as they are issued rather than having to make one large major overhaul of their reporting systems all at once. Some may argue that these small firms may still continue to use U.S. GAAP if the SEC provides a choice between the two sets of standards rather than dictating that all listed firms use IFRS. However, that opens up the whole discussion of comparability, particularly for investors who would then need to reconcile the differences themselves when comparing, for example, IBM with a smaller local technology firm. Comparability is a very important characteristic in both the old and new conceptual frameworks for financial accounting, since it facilitates choice.

The consequence of having so much input into the controversy over international standards in the U.S. is that even if convergence or adoption moves forward, the pace will be very slow and not everyone will be satisfied. Perhaps, given that sometimes rule makers must make compromises, no one will be satisfied.

Too Many Choices

Another problem with the move toward conversion is that this is not the only choice. The United States (meaning the SEC and FASB) may adopt IFRS as is for the listed U.S firms as did approximately 90 other countries, may adopt IFRS with carve-outs as did the European Union and a few other countries, may instead (or as well) converge completely with new international standards, or may converge with carve-outs as they seem to be doing. Each of these possibilities has advantages and disadvantages, but the biggest problem is that the SEC and FASB have not picked one goal toward which to work.

There are two arguments for unconditional voluntary adoption of IFRS by U.S. firms. First, in late 2007 the SEC voted unanimously to allow “certain foreign entities listed on U.S. exchanges to employ either U.S. GAAP or the Englishlanguage version of IFRS.” (McEnroe and Sullivan 2014). Allowing U.S. firms to follow suit would enhance comparability. The second reason is, as mentioned in the previous section, that large multinational U.S. based listed firms would no longer have to spend time and money reconciling their foreign subsidiaries that already use IFRS for their own financial reports.

On the other hand there are drawbacks to this approach. If the adoption is voluntary for each firm, the U.S. would now have a dual system of reporting which would be counterproductive to the desire for consistency. If adoption of IFRS is mandatory, this will create much additional work and much money spent on the conversion for smaller firms who have little or no stake in aligning their accounting and reporting with that of foreign corporations.

A similar choice is the adoption by the U.S. of IFRS, but with carve-outs. The European Union chose this strategy, and adopted an EU version of IFRS in 2002 as a requirement for all consolidated financial statements of the firms from EU countries that trade on regulated European securities markets. The main carve-out of the EU version concerns the treatment of fair value hedge accounting in IAS 39.

The advantages and disadvantages of adoption with carve-outs are similar to those for adopting IFRS in total as is, but with a more blatant disregard for consistency since now different countries are using different versions of the same set of rules. Although this metaphor is overly dramatic and exaggerated, it would be like comparing your game of checkers to your neighbor’s game of chess. The boards look the same, but the pieces and the rules are different.

The alternative to adoption of IFRS is convergence, but again there is the question of carve-outs. As Shakespeare might have said, convergence is not convergence which alters when it alteration finds. Is convergence with carve-outs really going to fulfil the purpose of creating a single uniform set of international accounting standards to make reporting across firms and borders more comparable?

The United States is not the only country working on convergence with IFRS. Canada, China and Japan also have convergence projects. The ideal resolution to these endeavors is that IFRS remain a steady and stable set of international standards, and that the GAAP of various countries grow closer and closer to this unwavering line. The reality is that for each convergence project there are exceptions and that in some cases, particularly within the U.S., the international standards are not a constant, which would then require more iterations of the convergence projects of other countries in order to achieve convergence. In the worst case, each country’s convergence project would create slightly different versions of IFRS. This then simply transforms convergence into the “adopt IFRS with carve-outs” choice.

At this point one must also remember that we are only talking about listed firms. What will happen to the U.S. firms that are not listed? Will there be a local set of GAAP that is similar to the old standards and not similar to IFRS? Will these unlisted firms have to translate financial statements into IFRS statements? Leone(2010) also points out that many firms believe that, if the U.S. does not adopt IFRS, “American companies can return to the old ways of accounting,” forgetting that these old ways are already rapidly changing due to the convergence project. For example, since 2002 FASB has issued over 20 new statements (SFAS,) the purpose of many of which is to bring GAAP closer to IFRS. These include in 2005 SFAS 154 *Accounting Changes and Error Corrections*, in 2007 SFAS 141R *Business Combinations (Acquisition Method,)* and also in 2007 SFAS 159 The *Fair Value Option for Financial Assets and Financial Liabilities.*

The question of conversion to or convergence with IFRS is almost like a game of whack a mole. As one concern is addressed, another pops up. As one choice is accepted or rejected, another pops up. It will be very difficult for the U.S. to come to a resolution about how to deal with international standards unless the focus of the conversion project is clear.

Too Many Carve-Outs

At issue here is not so much the number of carve-outs, but the number of countries taking carve-outs. One example is the European Union's adoption of IFRS in which they "decided to 'carve-out' a portion of the international standard for financial instruments, producing a European version of IFRS." (FASB 2013). Although one may consider this a small exception to IFRS, it does affect 28 countries.

According to a 2013 publication by PWC, there are several non-European Union and non-U.S. countries with a variety of carve-outs. One example is Brazil, which does not allow revaluation of fixed assets, and does not allow early adoption of new standards. Another example is Chile, which requires that banks treat bad debts according to local GAAP rather than IFRS. Uruguay and Israel also make exceptions for banks, Pakistan for banks and insurance companies, the Philippines for banks and mining companies. Saudi Arabia requires IFRS for banks and insurance companies, but not for other firms. Algeria has, among other things, the odd exception that the primary users of financial information are not identified as the stockholders. Tunisia does not allow the use of IFRS, but their domestic GAAP is modeled on the IFRS that existed in 1995, so their GAAP is similar to, but not the same as, current international standards. Australia's reporting is mostly consistent with IFRS although they require some additional disclosures, and have some standards for topics that the IFRS do not address such as the Petroleum Resource Rent Tax.

India probably has the most prevalent set of carve-outs. Attra (2014) reports that the Indian version of IFRS, referred to and Ind AS and which is more of an attempt to converge with rather than directly adopt international standards, has 13 carve-outs. Citing vast differences in their economic conditions as the motivation, one of these exceptions is the inclusion of amortized exchange differences from monetary translation in the equity section, rather than posting these gains or losses directly to income. Another carve-out is that investment properties may only be measured at cost rather than cost or fair value. A third involves real estate construction. IFRS treats this as an ordinary sale of goods, but Ind AS requires revenue on these sales to be recognized using percentage of completion. Given all these carve-outs, Attra (2014) concludes, "As it is evident, some companies may be benefited by applying the existing Ind AS, over the IFRS. However, this benefit will result in them not being comparable with their International peers, which will, in turn, impact their fund-raising abilities."

Going beyond carve-outs, not all countries allow the use of international standards in any form. For example, the following countries fully prohibit the use of IFRS and must use only local

GAAP: Cameroon, Chad, Columbia, Egypt, Indonesia, Paraguay, and Senegal. This definitely precludes the spirit of a single uniform international set of accounting standards.

Since there are about 196 countries in the world, and as listed above approximately 38 (the European Union countries and ten others, excluding the United States) have some sort of carve-out and another seven listed above are not allowed to use IFRS at all, that means approximately 23% of the countries in the world are not following the current IFRS as written by IASB. This is a significant number, and does not bode well for a single uniform set of global standards. Since all these other countries are allowed exceptions, why not the United States? And so, it is unlikely that U. S. GAAP and IFRS will ever truly converge.

Principles vs Rules, or Where's the Beef?

Accounting students are routinely taught that a big difference between IFRS and U.S. GAAP is in their underlying philosophies, that IFRS are principles based while GAAP are rules based, but the difference is not always explained clearly. Principles look toward the outcome, while rules describe the conduct necessary to arrive at an outcome. Using a non-accounting example, a principle might be to treat your children well and make sure they have food and shelter. The rules based version might be: do not hit your children; make sure you have housing for your children; make sure your children get three balanced meals per day; make sure they have clean clothes to wear; do not leave your children unattended. Violating any of these rules will have legal consequences. Both the principles and rules above have the same outcome, but the principles assume that one knows how to achieve the result and the rules lay out a specific path under the assumption that people must be guided to the desired outcome.

The first question to ask is whether it is true that IFRS are principles based and GAAP are rules based. Leone (2010) alleges that this is a myth, and that both IFRS and GAAP are based on a combination of principles and rules. However, Shortridge and Myring (2004) point out that, while each FASB statement begins with a principle, rules are then created to meet the objectives of the principle. To illustrate this they focus on the treatment of accounting for leases, for which they highlight the fact that IASB (prior to the convergence project with FASB) addresses this accounting issue in "six IASB pronouncements and one interpretation. In contrast, U.S. GAAP related to lease accounting is addressed in 20 Statements, nine FASB Interpretations, 10 Technical Bulletins, and 39 EITF Abstracts. The depth of GAAP coverage of leases is characteristic of the rules-based accounting system in the U.S."

Leone (2010) further reports that the President and CEO of Leveraged Logic, Bruce Pounder, has stated that since GAAP has existed for much longer than IFRS, it has simply amassed more rules than IFRS, but they are both principles based and rules driven. Contrarily Shortridge and Myring (2004) contend that U.S. GAAP is indeed more rules driven than IFRS, and explain, again in the context of leasing, "FASB hoped that by providing explicit rules, individual judgment would be eliminated and the standards would be consistently applied."

On the topic of leases, FASB found that the explicit rules actually gave firms greater rather than less ability to manipulate reporting, because of the "bright line" rules involving differentiating capital from operating leases. Moving forward to 2013, FASB, after working with IASB on a joint lease reporting project since 2006, issued a revised exposure draft that basically classifies most leases as capital leases, requiring the lessee to report both the liability (present value of lease payments) and the leased asset on the Balance Sheet. This would disallow the "bright line" distinctions that permitted off balance sheet financing for leases. By the end of the comment period in September 2013, FASB had received over 600 letters, many of them unfavorable. Even the members of FASB themselves only voted 4-3 to release the exposure draft. (Williams, 2014). After as long as seven years, FASB and IASB have still not been able to agree on how to expense the type B leases for lessees. The type B lease is what used to be an operating lease; IASB wants to amortize the expense and FASB wants to use a "single, straight-line lease expense" for these leases (Tysiac 2014). Moreover, although agreeing on most points for the treatment of lessor accounting, FASB and IASB did not agree completely there, either.

Returning to the comment above that GAAP has existed much longer than IFRS and so has generated more rules, we have two arguments against this logic. First, if Mr. Pounder wishes to compare numbers, let us look back again at history. The Committee on Accounting Procedures (CAP) was created in 1939, and over its 20 years issued 51 Accounting Research Bulletins. The Accounting Principles Board then replaced CAP and issued about 31 opinions before being replaced by FASB. FASB has issued to date over 150 statements, while the IASC and IASB combined, which sequentially have existed as long as FASB, have issued 41 International Accounting Standards and 15 International Financial Reporting Standards, the last two of which, IFRS 15 and IFRS 9, were just issued this year. In just the 40 years since FASB and IASC were originally established, FASB has issued almost three times as many standards as the two international accounting bodies. Also, as Leone (2010) points out, "The IASB … touts the brevity of the 2,500 page IFRS rulebook versus GAAP's 12,000 pages." Although Leone is trying to make the point that this is irrelevant in the principles vs rules debate, it is certainly difficult to ignore.

Given this evidence, we agree that IFRS and GAAP each contain a principles and rules component, but that GAAP is much more rules-oriented. Further, the United States is considered a very litigious society, which tends to produce a number of new rules to meet new issues, and it is natural that this philosophy carries over into accounting, where accounting manipulations have caused such serious problems as the Enron or WorldCom scandals. In an effort to prevent fraud, even more rules are proposed, and as firms find ways around these rules or ways to use the rules to their advantage, more rules are recommended. Perhaps this will also eventually happen to IFRS, but the philosophy is different—managers and accountants should think for themselves rather than following a boilerplate of rules that may cause vastly different accounting treatments for similar economic transactions, and leases are a perfect example of this.

Having argued that IFRS are certainly more principles based than are GAAP, the other question to address is whether principles or rules are preferable in measuring and reporting financial accounting transactions. The arguments against a principles based system are that it is not precise enough, and thus too easy to manipulate. Shortridge and Myring (2004) also point out that, again given the litigious society of the United States, "accountants seem to prefer rules-based standards, possibly because of their concerns about the potential of litigation over their exercise of judgment in the absence of bright-line rules." Several researchers, including Agoglia, Doupnik and Tsakumis (2010) have studied the relationship between financial standards rigor and management's manipulation of the accounting. They use the term "aggressive" reporting rather than manipulation, but they find that managers report less aggressively under a principles based system than a rules based one. Why might this be so? According to Deloitte partner D.J. Gannon, "not only do companies have to adhere to the principles of IFRS, they are pushed to reach accounting outcomes that are more reflective of economic reality. That requires judgment and thoughtfully written disclosures to support the accounting treatment."(Leone, 2010). The focus is on the outcome rather than the process to reach the outcome, which may be a maze of specific rules for a variety of industries. It is a matter of, "Where's the beef?" rather than of, "How do you prepare the beef? "

Different perspectives make convergence of IFRS and GAAP challenging. While principles are sometimes considered difficult to enforce because they are vague, rules may become so complicated that similar economic transactions yield different accounting treatments. We feel that the international standards are simpler, easier to follow and more outcome driven which makes them superior to rules based standards, but as long as others disagree, we do not see FASB either completely converging with or the U.S. completely adopting IFRS.

The Transmogrification of IFRS

In 1973 when IASC was formed, the idea was to create a single set of global financial accounting standards that most nations would adopt as is. In 2002 when FASB and IASB agreed to work on convergence, the latter already had a number of international standards in place, and probably imagined a scenario similar to the last line of George Orwell's novel *Animal Farm*, "The creatures outside looked from pig to man, and from man to pig, and from pig to man again; but already it was impossible to say which was which", in which GAAP replaces pig, and IFRS replaces man. That is, GAAP would evolve into IFRS, either through convergence or simple adoption as is, of the international standards buy U.S. firms.

As the convergence project moves forward, it grows clear that the U.S. standards are changing, but so are the international standards. While this is not necessarily a bad thing, since as time, the economy, and the world are all changing constantly, it does make IFRS a moving target. That is, every country that has adopted the international standards has at least cursorily examined them to make sure they meet their users, preparers and auditors' needs, which is why there are so many carve-outs. But as IFRS change, many of these countries will have to re-evaluate their own versions of IFRS every time IASB changes a rule. At some point this will become too cumbersome, and as IFRS change the divergence between the IASB international standards and various countries' versions of those standards may grow farther apart as countries ask for more carve-outs.

How does this affect the FASB/IASB convergence project? IASB changes their standards to meet economic needs, and works with FASB to create new and similar standards. However, as IASB works toward a consensus with FASB on various issues, FASB is adamant about not changing certain rules or restrictions, such as the timing of impairment losses in IFRS 9 *Financial Instruments* issued in July 2014, or definition of "probable" when dealing with collectability issues in IFRS 15 *Revenue Recognition*, issued only in May 2014. As the two sets of standards have changed and moved toward each other, but without total agreement on some of the points even after IASB was ready to issue the statements, this indicates that convergence will never fully be achieved.

CONCLUSION

The Vice Chair of IASB, Ian Mackintosh, is reported to have said as recently as this year that a single set of international accounting standards is “desirable, achievable, and … inevitable” (Amato 2014). We feel that U.S. GAAP and IFRS will never achieve full convergence for a variety of reasons. First, too many believe that GAAP is superior and thus resist change either in the form of adoption of or convergence with IFRS. Remember that neither FASB nor IASB operate in a vacuum, which means they not only solicit but welcome comments on each new principle from anyone wishing to provide these comments, and FASB does tend to listen. Also, note that the members of FASB are not always in alignment, that is, they do not vote unanimously, with each suggested new statement or revision proposed.

Second, since both the number of people and of organizations with input into the process is large, it is difficult to reach consensus on any new idea. Third, FASB also has too many paths it may take: full adoption of IFRS, adoption with carve-outs, full conversion, or conversion with carve-outs. If FASB has no clear destination, then it has no clear path either.

Fourth, because so many countries are allowed carve-outs, this signals the United States that they may also have carve-outs and that precludes true adoption of or convergence with the international standards. Finally, too many people believe that a principles based system is not detailed enough, and that firms need more guidance in both recording and reporting accounting transactions. Since GAAP is more rules oriented, many find it preferable to IFRS even if research indicates this is false, but this belief will impede convergence nonetheless. Thus, rather than true convergence, we will have an asymptotic relationship between IFRS and U.S. GAAP in which the two sets of standards grow closer and closer to infinity and beyond, but never meet.

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