



Individual investors' attitudes toward the acceptance of International Financial Reporting Standards in the United States

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ARTICLE INFO

Keywords:

IFRS
SEC
Investors
FASB
Survey
Accounting
International

ABSTRACT

As of this writing, non-U.S. companies using International Financial Reporting Standards (IFRS) are permitted to list their securities on U.S. stock exchanges without reconciling those statements to U.S. Generally Accepted Accounting Principles (U.S. GAAP). The Securities and Exchange Commission (SEC) is currently considering a proposed rule that would require all U.S. issuers to employ IFRS by 2015. SEC Commissioner Elisse Walter has emphasized that IFRS should be incorporated into U.S. capital markets only if the change benefits U.S. investors. Current Chairperson Mary Schapiro more recently echoed this statement. Accordingly, this paper reports on the results of a survey of individual investors' attitudes toward this potential change. It concludes that U.S. investors are satisfied with the current U.S. accounting model and do not desire a movement toward the adoption of IFRS.

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1. Introduction

As of this writing, non-U.S. companies using International Financial Reporting Standards (IFRS) are permitted to list their securities on U.S. stock exchanges without reconciling those statements to U.S. Generally Accepted Accounting Principles (U.S. GAAP). The Securities and Exchange Commission (SEC) had considered a proposed rule (commonly referred to as the "SEC Roadmap") that, if adopted without changes, would have required all U.S. issuers to employ IFRS by 2014 and permit earlier adoption by some issuers (SEC, 2008). However, in a recent meeting of the SEC (February 24, 2010) the Commission unanimously approved a new timeline that envisioned 2015 as the earliest date and also withdrew the proposed rules for early adoption of IFRS, with the option of considering it at a later date (referred to as the "SEC Workplan" (SEC, 2010a)). The SEC further stated that it is not excluding the possibility that issuers may be allowed to choose between the use of U.S. GAAP and IFRS (DeFelice & Lamoreaux, 2010, p. 23). SEC Chairperson Mary Schapiro summarized the Commission's position as follows:

For nearly 30 years, the Commission has promoted a single set of high-quality globally accepted accounting standards, which would advance the dual goals of improving financial reporting within the U.S. and reducing country-by-country disparities in financial reporting. But supporting is only the beginning of the discussion, not the end (SEC, 2010b, p. 2).

The recent resignation of FASB Chairman Robert Herz, effective October 1, 2010, introduces more uncertainty into the convergence process, especially coupled with the fact that the FASB will return to a seven member Board format from the current five, which requires the appointment of three new members (Johnson and Stuart, 2010). However, Sir David Tweedie,

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Chairman of the International Accounting Standards Board (IASB) recently stated that he believes that U.S. influence over the development of international standards will diminish if it rejects IFRS in 2011 (Christodoulou, 2010). Despite this uncertainty, the FASB and the IASB are working toward convergence on four major projects (revenue recognition, financial instruments, fair value measurement, and other comprehensive income) and stated that they will meet their self-imposed June 2011 deadline for closure on these endeavors. However, they extended their deadline until December 2011 for less urgent projects, including financial statement presentation and financial instruments with characteristics of equity (Lamoreaux & Nilsen, 2010).

In the transition from the Bush administration to the Obama administration, it first appeared that the momentum for the adoption of IFRS by U.S. issuers might have dissipated. In testimony before the U.S. Congress prior to her confirmation as SEC chairperson, Mary Schapiro indicated that she was “not prepared to delegate standard-setting or oversight responsibility to the IASB” (Schapiro, 2009, p. 5). Since her confirmation, she and other U.S. regulators have focused most of their attention on issues relating to the worldwide financial crisis. Also, concerns over the independence of the IASB when it apparently “sidestepped due process to rush out a rule allowing financial institutions to reclassify some loans as a way of avoiding marking those assets to market” caused some to reconsider the movement toward IFRS (Leone, 2008, p. 1). More recently, however, some momentum appears to have returned. The Leaders Statement from the Pittsburgh Summit of the G20 calls for “international accounting bodies to redouble their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard setting process, and complete their convergence project by June 2011” (Leaders’ Statement 2009, Item 14).

Much has been written about the differences between IFRS and U.S. GAAP and about the prospects for either convergence of the standards or U.S. adoption of IFRS. Furthermore, a great deal of attention has been given to the attitudes of some interested parties toward the movement to IFRS. On the other hand, there has been very little consideration given to the attitudes of individual investors toward this process. This is despite the fact that most pronouncements from the SEC indicate that they consider the impact on the investor a key aspect in deciding how to proceed, as indicated by the following statement of Commissioner Walter: “I believe that we should move forward with further incorporating IFRS into the U.S. capital markets if, and only if, it is the right thing to do for U.S. investors” (Walter, 2009). Similarly, SEC Chairman Mary Shapiro recently stated that “requiring U.S. public companies to report in IFRS is a highly significant decision that they would not make unless they are certain that it is the best move for investors and the companies involved” (DeFelice & Lamoreaux, 2010, p. 23).

Given this background, the perceptions of one set of investors, individual investors, is the focus of this paper. Individual investors are an important audience because they are one of the primary users of financial information and, through direct and indirect investments, they are the major investors on U.S. exchanges. On the other hand, individual investors cannot be expected to provide informed opinions on the details of technical financial reporting issues. In its 2010 Workplan, the SEC stated that it will research the extent of investors’ knowledge of IFRS and what resources might be required, in time and logistics, to improve their understanding of IFRS (SEC, 2010b). Therefore, this paper reports on the results of a survey questionnaire on the perceptions of individual investors (a selection of individual investors who are members of the American Association of Individual Investors described below) toward: (1) whether foreign companies should be permitted to list on U.S. exchanges using IFRS (the current state of affairs); (2) whether U.S. companies should be permitted to report using IFRS (the SEC proposal); (3) what roles should be played by U.S. entities in standard development; and (4) what should be the general direction of standard development. It should be noted at this point that two questions contained in this study are replications from a previous study involving individual investors conducted in 2005 (McEnroe & Sullivan, 2006). Thus the current study, conducted in 2010, provides a longitudinal analysis of individual investors regarding these issues. Many developments, including the SEC Roadmap and the SEC Workplan, have occurred since the previous study and thus provide a more current assessment of individual investors’ perceptions, which we will compare and discuss in our review of the results of the current study.

This paper proceeds with a review of the relevant literature related to the issues mentioned above as well as a review of the results of other stakeholder surveys involving IFRS. It then describes our research method, discusses our results, and presents our summary and conclusions which indicate a significant reluctance on the part of individual investors to move toward IFRS.

2. Review of relevant literature

Our review of the literature consists of six sections: (1) background, perspective, and recent events related to foreign listings on U.S. stock exchanges; (2) opinion surveys regarding various facets of international accounting; (3) research on reporting requirements for non-U.S. firms; (4) research on reporting requirements for U.S. firms; (5) research on the role of external entities in standard setting; and (6) research on the direction of standard development. Our research focuses on the latter four areas where we feel the literature would benefit from an understanding of the attitudes of individual investors on these issues.

2.1. Background, perspective, and recent events

In 1982, the SEC implemented the requirement that foreign issuers had to prepare a reconciliation of their financial statements to U.S. GAAP. Although the Commission accepted the reconciliation, it long advocated reducing the differences

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