

The Universal Appeal of the US GAAP Codification

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As businesses and markets become more and more globalized, it has become generally recognized that a single set of high-quality accounting standards would greatly benefit the worldwide financial reporting environment. In the United States, however, there are two conflicting routes leading to this milestone. As the FASB has taken an active role in *improving* and *converging* accounting standards through efforts that stem from the Norwalk Agreement, IFRS have gained such heavy worldwide acceptance that the SEC has outlined a tentative plan for US *adoption*. In fact, many speculate that US adoption of the principles-based IFRS is inevitable. Meanwhile, the FASB has recently completed the arduous Accounting Standards Codification (ASC) project, which has yielded a single organized source of authoritative US GAAP. Given the SEC's indications of adoption and the ultimate goal of globalizing accounting standards, however, practitioners are left to question the current function of this Codification. While one could infer that the FASB would not have directed the ASC project had it envisioned adoption as inevitable, the project has actually yielded a very sturdy platform for both convergence and adoption. As a result, US companies will likely become more prepared for the future of financial reporting with this critical project completed.

In the 2002 Norwalk Agreement, the FASB and the IASB formalized a unified commitment to develop high-quality, compatible, and converged accounting standards, which was a true acknowledgment of the potential benefits of a global standard set.¹ Consistent with the goals of quality and compatibility, the FASB later sought to improve their own standards by taking on the ASC project in 2004. The FASB's principal goal in the ASC project was to simplify access to US GAAP standards by consolidating all the authoritative guidance into a more easily searchable single source.² Previously, US GAAP was composed of upwards of 16 sources and four different tiers of authority. This "House of GAAP," with its multiple standards, multiple standard-setters, and multiple indexing schemes, certainly led to much confusion and made it difficult to retrieve relevant US GAAP.³ Also, the redundancy in this hierarchy led the

very detailed, rules-based US GAAP to span a massive 25,000 pages.⁴ At the completion of the five-year ASC project, however, the successful efforts of the core project team resulted in a very organized and comparatively trim 17,000 pages of codified US GAAP. After the FASB issued Statement No. 168 (the final FASB Statement) in July 2009, the Codification became the only level of authority outside of SEC content (which is considered authoritative for public companies whether or not it is present in the codification).⁵ In an instant, all prior US GAAP became non-authoritative as the FASB effectively flattened the "House of GAAP" into a single floor with only one occupant.

Though current US GAAP practitioners certainly face a learning curve, the Codification offers several benefits to the accounting profession moving forward. Most notably, access to the standard set is astonishingly simple compared to the old form. The entire ASC is accessible through the FASB's website, and a single "viewpage" with rollover menus serves as a launching point to the complete US GAAP. Additionally, all updates are posted directly to the ASC, and they are easily traceable based on the year of integration. Quite effortlessly, in fact, one can log on to the FASB website and view the seventeen 2009 updates to the ASC, which are logically numbered "2009-01" through "2009-17." The simple accessibility and heavy organization of the ASC will certainly reduce the amount of time and effort required to research an accounting issue, which will undoubtedly also reduce the risk of noncompliance.

Over the same period of time that the FASB undertook the projects related to the Norwalk Agreement and the ASC, however, IFRS gained substantial worldwide acceptance. Ironically, early FASB support helped the IASB reach this milestone. In the late 1980's, the part-time IASC (the predecessor of the full-time IASB) requested that Dennis Beresford, the then-FASB Chairman, have one of his fellow Board members participate as a member of the IASC Advisory Council. On behalf of the FASB, Beresford agreed, partly to further distinguish the US as leaders in accounting. This support from the highly reputable FASB in turn allowed the IASC

to gain much-needed European support and likely perpetuated the success of the IASB.⁶ By 2002, the year of the Norwalk Agreement, more than 100 countries began requiring or permitting the use of IFRS.⁷ This success persisted through the rest of the decade, as the quality of IFRS continued to increase. Currently, IFRS is set to be authoritative in over 120 countries, including Japan, the world's second-largest economy.⁸ In the US, the trend towards adoption took a significant step forward in 2007, when the SEC (notably separate from the FASB) passed a resolution allowing foreign private issuers to file in the US under IFRS without a reconciliation to US GAAP.⁹ One year later, in late 2008, the SEC took more significant action when it issued a proposed Roadmap for adoption, which set forth several milestones that could result in authoritative IFRS in the US as soon as the 2014 fiscal year, depending on the size of the issuer.

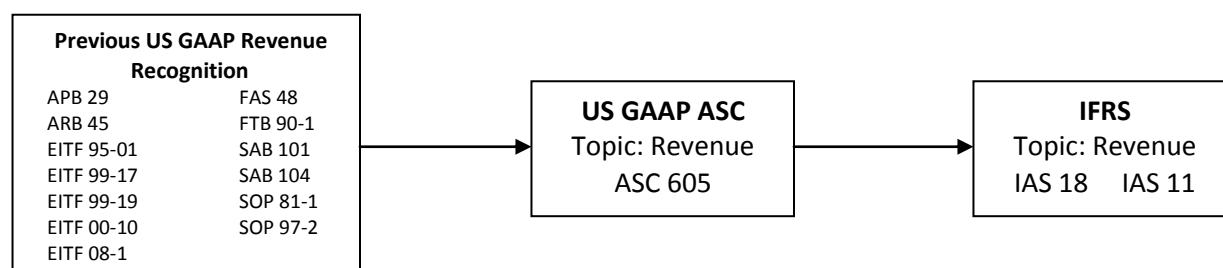
The Roadmap, however, is by no means finalized. After a change in administration in 2009, the SEC has been reluctant to comment on the matter because of the current economic downturn, and it is cautiously deliberating alternatives in light of comments received from the public.¹⁰ Regardless, though, the US adoption of IFRS still seems likely in some form. First, multiple recent surveys indicate a surprising amount of support from the public. A 2009 Deloitte survey indicates that 70% of US financial executives support the proposed Roadmap either "as is" or delayed by one year,¹¹ and a 2009 KPMG survey indicates that 65% of investment executives and analysts believe the Roadmap to be adequate or not quick enough!¹² Additionally, adoption is widely supported by large and influential public accounting firms; Ernst & Young notes that convergence is "not realistic" and that the US must commit to IFRS as soon as possible in order to maintain their influence on international financial reporting. Above all, the SEC is still noted to view a single set of global standards as "a goal worthy of pursuing," and most expect the SEC to continue with the adoption agenda.¹³ Even the current economic downturn and potential costliness of the change are unlikely to derail US adoption. In fact, one Deloitte survey indicates that only 9% of financial executives view economic challenges as a

reason to delay the Roadmap.¹⁴

With the looming indications of a US adoption of IFRS, US practitioners are left to question the current function of the Codification. Even after the ASC project, US GAAP, the former "gold standard" of accounting principles, is not currently a realistic international standard set. After all, these standards were tailor-made by US organizations for the US business environment. Though convergence will still continue with regard to increasing the quality of international standards, these efforts can only reach a certain limit. The US rules-based format, for example, could never realistically merge into the principles-based IFRS, because the format of each standard set is too deeply entrenched into the individual standards. Also, given current trends, critical issues such as inventory costing and fair value may never converge absent a concession by the FASB. Danita Ostling, IFRS Leader at Ernst & Young, even ventures to deem US GAAP economically unsustainable.¹⁵ All this considered, the Codification, which constitutes all the same US GAAP that existed prior to the ASC project, will likely serve as an intermediary standard set in the US. As a result, one significant question remains: can the Codification be an effective tool for transitioning to international standards, or were the efforts of the ASC project team all for naught?

As it turns out, the conciseness of the new Codification provides a useful basis for transition, even if adoption occurs. Surely, US GAAP practitioners would not be enthused with the idea of learning a new set of standards from scratch. They would much rather *navigate* to the new set by knowing and understanding the differences from current standards. The clean and consistent language and heavy categorization in the ASC can provide for this direct line of learning much more effectively than would a maze from the "House of GAAP" to international standards. In fact, the ASC structure itself can aid in a smooth transition, as the topic and section levels of the Codification heavily correspond to IFRS.¹⁶ As demonstrated in the revenue recognition example below, a transition to IAS 18 and 11 from the familiar ASC 605 would

certainly be simpler than a transition from the previous US GAAP standards, especially considering the ASC and IFRS share similar sections within the main topics.



Ironically, IFRS adoption might not be as feasible without the Codification, a project initiated in an environment of convergence.

As US businesses undertake projects to adapt to the ASC, an already immense task, it is critical that they recognize that even larger changes may take place in near future. Now, large US companies must, at minimum, begin researching how they can feasibly implement international standards. Otherwise, they risk placing themselves at a significant competitive disadvantage if or when these changes take place. In fact, it may be advisable to expand current ASC implementation projects to include the development of flexible systems that could more readily handle a change in standards. Companies should not have to adapt to different accounting rules everywhere they do business, especially when a globalized standard set is within reach. Because it provides a unique platform for both convergence and adoption of international standards in addition to increasing the accessibility of current US GAAP, the Codification offers a universal appeal. All the implementation efforts combined could effectively globalize accounting and investment activities, resulting in further streamlining of business activities and an unprecedented level of comparability and transparency.

¹ "Memorandum of Understanding with the FASB." *International Accounting Standards Board*. Web. 05 Jan. 2010. <<http://www.iasb.org/Current+Projects/Memorandum+of+Understanding+with+the+FASB.htm>>.

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- ¹³ "Plotting a course"
- ¹⁴ "IFRS Survey Results 2009"
- ¹⁵ Cohn, "Accountants Uncertain"
- ¹⁶ Ford, Caroline O., and William Thomas. "Test-Driving the Codification." *Journal of Accountancy*. Dec. 2008. Web. 07 Jan. 2010. <<http://journalofaccountancy.com>>.