

## **THE GLOBAL GAAP: A RESULT OF CONVERGENCE OF THE IFRS AND THE US GAAP**

Accounting is a technology which is practiced in various political, economic and social contexts. These have always been international as well as national, but since at least the last quarter of the twentieth century, the globalization of accounting rules and practices has become so important that narrowly national views of accounting and financial reporting can no longer be sustained.

The issues of particular contextual importance are as follows:

- major political issues, such as the dominance of the United States and the expansion of the European Union;
- economic globalization, including the liberalization of and dramatic increases in international trade and foreign direct investment;
- the emergence of global financial markets;
- patterns of share ownership, including the influence of privatization;
- changes in the international monetary system;
- the growth of multinational corporations (MNCs).

These developments are interrelated and all of them have already affected the financial reporting and the transfer of accounting technology from one country to another. They are now examined in turn.

The convergence of accounting standards refers to the goal of establishing a single set of accounting standards that are to be used internationally. Convergence in some form has been taking place for several decades, and efforts today include projects that aim to reduce the differences between accounting standards. Convergence is driven by several factors, including the belief that having a single set of accounting requirements would increase the comparability of different entities' accounting numbers, which will contribute to the flow of international investment and benefit a variety of stakeholders. Criticisms of convergence include its cost and pace, and the idea that the link between convergence and comparability may not be strong [1].

Nowadays an urgent issue is the convergence of two global accounting doctrines – the IFRS and the US GAAP. The international convergence of accounting standards refers to the goal of establishing a single set of high-quality accounting standards to be used internationally, and the efforts of standard-setters towards achieving that goal. Convergence is taking place in various countries, with over 100 countries having made public commitments supporting convergence towards the International Financial Reporting Standards (IFRS). Efforts towards convergence include projects that aim to improve the respective accounting standards, and those that aim to reduce the differences between them [2].

The Financial Accounting Standards Board (FASB) has committed itself to a partnership with the International Accounting Standards Board (IASB) for the purpose of converging U.S. accounting standards and international financial reporting standards (IFRS). The goal is to converge standards and establish a global set of generally accepted accounting standards, known as Global GAAP. In the wake of recent financial scandals, this goal has received considerable attention and looks as though it might actually be achievable now.

If one set of high-quality global standards is indeed to be achieved, it is vital that all constituents participate actively in the IASB's standard-setting process. We believe that it is essential that the U.S. corporations, investors, analysts and accountants participate in the development of the IFRS at each stage of the process and provide timely input to the IASB. Such participation is particularly important considering the projects that the IASB and the FASB currently have on their agendas - stock compensation, reporting financial performance, revenue recognition, insurance contracts, and the purchase method of accounting. Some constituents have suggested making U.S. GAAP the Global GAAP. We believe that this is not a workable solution. Our conclusion is based on many reasons, including ones as follows:

- Recent corporate scandals have shown that the U.S. financial-reporting system needs to be overhauled. Prescriptive rules are not conducive to a good reporting environment. This is because rules encourage the avoidance of their requirements no two transactions will be exactly alike and thus companies and their accountants will need to account for a transaction based on its underlying economic substance (which will of course necessitate the judgment making) rather than on a legal form prescribed by detailed rules; and auditors should focus on the overall substance and principles, not simply interpret the detailed rules.
- Worldwidethe Different economic environments may be found, so the prescriptive rules will unlikely work on a global basis.
- Various constituents are necessary in order to develop a set of standards that will be comprehensive and applicable properly by all reporting makers.
- Other territories are not willing to give up their sovereignty over standard-setting to a national body of another territory but are willing to give that sovereignty up to an independent body possessing a global mandate.

We believe that the Global GAAP should focus on the substance of transactions and provide transparent and understandable financial information. What the global markets need is an integrated framework in which all relevant financial and non-financial information is presented in a way that is not only understandable, but that is also decision-useful and permits meaningful comparisons from year to year within and between entities. We believe that Global GAAP should be based on principles. Such principle-based standards must meet the following criteria:

- Be broad in scope.

- Provide sufficient clarity regarding underlying principles that will result in consistency such that similar transactions are treated similarly.
- Allow only limited exceptions and alternatives.
- Result in transparent reporting and disclosure for decision-making purposes [3].

The idea of creating the Global GAAP is not a brand new one, as it was firstly announced in Hong Kong in November 2002 at the XVIth International Congress of Accountants and was formalized the same year in the Norwalk Agreement. At the first stage of this idea the minority were explicitly opposed, but the majority of supporters were divided in their views on the conceptual bases of the Global GAAP. Certainly, either International Financial Reporting Standards, or the US GAAP could be chosen as the Global GAAP basis. The "authority" of both systems as well as the high price of the issue prevent giving preference to the IFRS or to the US GAAP.

Therefore, the International Accounting Standards Board and the Financial Accounting Standards Board agreed to reach a compromise, which lied in the convergence of two accounting systems. Significant results towards the convergence of the IFRS and the US GAAP have already been achieved. We should pay tribute to the IASB, which once went to make concessions in order to achieve the goals of convergence of two major accounting systems (e.g., segment reporting). However, recent events have called into question the reality of convergence of the expected results, i.e. creation of the Global GAAP. Specifically, in July, 2012 the release of Report of the US Securities and Exchange Commission was published, which presented the results of research on the potential impact of the costs and revenues associated with the transition of American businesses to the IFRS. And we must admit that the conclusions are disappointing and this allowed the FASB to announce unless the abandonment of national standards convergence in general, i.e. the US GAAP and the IFRS, or the deposition of implementation and completion of the Global GAAP convergence indefinitely. The relative proximity of the IFRS and the US GAAP, the ongoing process of their convergence has led to the interpenetration of the principles and the rules of the financial statements compiling, which may certainly be considered as a progressive step in the development and implementation of Global Standards (the Global GAAP).

However, the discussions on quality, acceptability, applicability, and other distinctive features of the IFRS and the US GAAP are still taking place. Professionals conducting comparative analyses of IFRS and US GAAP, narrow them to the main issues comparison. This undoubtedly is of some practical value, but still insufficient for complete understanding the prospects of Global GAAP existence. So it is advisable to detect the identifying conceptual differences between IFRS and US GAAP that can also prove the relevance of their research towards making a thorough comparative analysis.