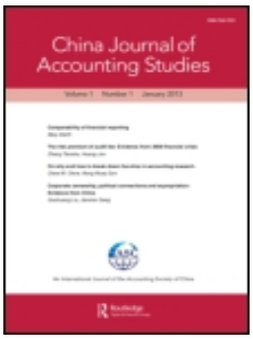

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COMMENTARY

Global comparability in financial reporting: What, why, how, and when?

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The Conceptual Framework identifies comparability as a qualitative characteristic of useful financial reporting information. This paper explains what comparability is, why comparability is desirable, how comparability is achieved, and when we might achieve it. In particular, comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items; comparability aides investors, lenders and other creditors in making informed capital allocation decisions; and achieving comparability depends on firms applying a common set of financial reporting standards and on requirements in the standards, especially measurement requirements. The paper discusses research showing that greater comparability can lower costs of comparing investment opportunities and improving financial reporting information quality. When comparability might be achieved is uncertain, although much progress has been made recently.

Keywords: Comparability; global financial reporting; International Financial Reporting Standards; Conceptual Framework

The *Conceptual Framework* of the International Accounting Standards Board (IASB, 2010) specifies comparability as one of the qualitative characteristics of financial reporting information, which enable that information to achieve the objective of financial reporting. That objective is to provide investors, lenders and other creditors with information that helps them in making their capital allocation decisions. Because capital is a scare resource, comparability is a crucial characteristic of financial reporting information. If investors, lenders and other creditors cannot make informed comparisons of alternative investment opportunities, their capital allocation decisions will be suboptimal. In fact, some believe that enabling investors to compare investment opportunities is the main reason we need financial accounting standards to prescribe the contents of financial reports. Without such standards, firms could portray and provide information about their financial position and performance in any way they choose. Given that financial reporting does not derive from a law of nature, there are innumerable ways firms could do that, and comparability would be lost. Thus, comparability is crucial to high quality financial reporting. This discussion seeks to explain what comparability is, why comparability creates benefits for investors and the firms in which they invest, how comparability can be achieved, and when we might achieve it.

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What is comparability?

Although the word 'comparability' has a meaning in the English language, financial accounting standard setters have a precise definition in mind. The *Conceptual Framework* explains that comparability is the qualitative characteristic of financial reporting information that enables users to identify and understand similarities in, and differences among, items. That is, comparability results in like things looking alike and different things looking different. The *Conceptual Framework* goes on to explain that comparability makes financial reporting information useful because the information can be compared to similar information about other entities or about the same entity at a different time. Comparability does not relate to a single item; comparability requires at least two items that are being compared.

To avoid misunderstanding, it is important to clarify what comparability is not. Comparability is not consistency. Consistency refers to the use of the same accounting methods or principles by a firm for the same items over time. Comparability is a goal of consistency and, thus, consistency helps achieve comparability. In itself, however, consistency does not ensure comparability. Comparability also is not uniformity. This is a source of confusion for many. Comparability results in like things looking alike and different things looking different. Uniformity requires treating all things in the same way. As a result, uniformity can make unlike things look alike, which impairs, not enhances, comparability. For example, consider an accounting rule specifying that all buildings be depreciated on a straight-line basis using a 30-year useful life and assuming a 10% residual value. Thus, the depreciation method for all buildings would be the same. What if some buildings last 20 years and others last 200 years? What if some buildings have a 5% residual value and others have a 25% residual value? What if some buildings deteriorate more rapidly at first and others deteriorate more rapidly nearer the end of their lives? Unless all buildings have a 30-year useful life, a 10% residual value, and economic benefits that are consumed in a straight-line pattern, using the same depreciation method achieves uniformity, but not comparability. It makes all buildings look alike, when in fact they are different. That is not comparability.

The *Conceptual Framework* also explains that some degree of comparability can be achieved by faithful representation, which is one of the fundamental qualitative characteristics of financial reporting information. That is, if financial statements faithfully represent an item – e.g., an asset or a liability – then comparability should follow. This is because a faithful representation would reflect the characteristics of the item. In the building example, if the residual value of a particular building is 25%, not 10%, then depreciating the building assuming a 10% residual value would not result in a faithful representation of the building.

Comparability: why?

Why is comparability so crucial to financial reporting? The primary reason – as with all qualitative characteristics of financial reporting information – is to help meet the objective of financial reporting. That objective is to provide financial information about the entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. The *Conceptual Framework* explains that decisions to buy, sell, or hold equity and debt instruments require allocation of capital, and financial reporting is aimed at those who cannot demand the information they need to make those capital allocation decisions. Thus, comparability in

financial reporting across entities and over time is crucial to enabling investors, lenders and other creditors to make more informed capital allocation decisions.

Comparability: how?

Having established the importance of comparability, the next question is how can it be achieved? This, of course, is not a simple task.

Global standards

When many people think about comparability in financial reporting, they think about the increasing use of International Financial Reporting Standards (IFRS). This is, in part, because the stated vision for IFRS is:

> … one single set of high quality global standards ... used on the global capital markets.

Many equate use of the same set of standards with achieving comparability. This vision for IFRS is based on the belief that use of global standards will improve the functioning of global capital markets. This should occur by increasing comparability and the quality of information, and by decreasing the costs of preparing financial reports, particularly for multinational firms, and information risk. Information risk is the risk that investors perceive when they know that they do not fully understand the information they are given, which would be the case if they are not 'fluent' in the accounting standards on which a firm's financial statements are based. Decreasing information risk should decrease the cost of capital.

It is difficult to imagine how comparability can be achieved without the use of global financial reporting standards. However, use of global standards is only a necessary step – not a sufficient step – to achieving comparability because, for example, the standards need to be rigorously applied and enforced. Ensuring any set of financial reporting standards achieves its potential ultimately depends on firms applying the standards as written, auditors auditing the resulting financial statements to ensure compliance with the standards, and regulators enforcing the standards.

Requirements in standards

Although a focus over the last decade or so has been on the widespread adoption of IFRS as a means of achieving comparability, even strict adherence to a single set of standards does not ensure comparability. The requirements in the standards also affect comparability and, thus, should not be overlooked. Let me explain how and why.

The *Conceptual Framework* considers financial statement elements, e.g., assets, liabilities, income, and expense, item by item. Examples of financial statement elements are accounts receivable, inventory, and long-term debt. The aim of focusing on financial statement elements item by item is to provide investors with comparable information about the entity's assets and claims against those assets. Profit or loss is the change in the assets and claims that do not arise from other assets, liabilities, or transactions with equity holders in their capacity as equity holders. The assumption underlying this focus is that comparability results from portraying financial statement elements in the same way, for example by recognizing the same (sub)set of assets and liabilities and measuring them in the same way.

However, does recognizing the same (sub)set of assets and liabilities achieve comparability? What if different assets and liabilities are important for some firms versus oth-

ers? For example, what about intellectual property assets of knowledge-based firms; property, plant, and equipment for durable manufacturers; and insurance liabilities for insurers? Do we achieve comparability if some assets – e.g., intangibles – or particular types of claims – e.g., claims with uncertain outcomes – are omitted? Do we achieve comparability if we omit intellectual property assets for all firms? Unrecognized assets and liabilities also have direct consequences for comparability of profit or loss because profit or loss depends on changes in recognized asset and liability amounts. Thus, if an asset is omitted, by construction the change in its recognized amount is zero and, as a result, it has no effect on profit or loss. If we omit intellectual property assets for all firms, do the financial statements of a knowledge-based firm and a durable manufacturer reflect their similarities and differences in a way that enables investors, lenders and other creditors to make informed capital allocation decisions? I cannot see how they can.

Measurement

Measurement also plays a crucial role in comparability that is often overlooked. Because financial reporting standards focus on financial statement elements item by item, one is lulled into thinking that measuring the same asset in the same way helps achieve comparability. But, does it? What if the measure is modified historical cost?[1] Although the method is the same, the resulting amounts likely differ. For example, the same asset purchased at different times will likely have a different measure. More differences can emerge over the life of the asset, e.g., if the asset is impaired or is part of a fair value hedge and, thus, its carrying amount is adjusted for the change in fair value attributable to the risk identified in the fair value hedge. How can modified historical cost achieve comparability?

What if the measure is fair value? IFRS 13 *Fair Value Measurement* defines fair value as the price that would be obtained to sell an asset or transfer a liability between market participants at the measurement date. Fair value has the potential to achieve comparability because one would expect economic differences and similarities to be reflected in value. Thus, using fair values makes like things look alike and different things look different. However, a concern about using fair value is the potential effects of discretion in estimating the fair values. Although some assets and liabilities have readily determinable market values, others do not, which means that their fair values must be estimated by managers. Whenever estimates are used in financial reporting – which is almost everywhere – there is concern that managers will use their discretion opportunistically to affect the estimates. There is a vast academic literature that finds evidence of managers' opportunistic exercise of discretion relating to many accounting amounts, regardless of whether they are based on modified historical cost or on fair value.

What if the measure were something else? Perhaps another measure exists that overcomes the undesirable features of both modified historical cost and fair value and possesses desirable features. Unfortunately, standard setters have yet to identify such an alternative measure.

As an example to illustrate the effects on comparability of using cost or fair value to measure all assets, consider three entities: Entity A, Entity B, and Entity C. Entities A, B, and C each owns one share of common stock in Entity Z. The acquisition cost is 20 for Entity A, 40 for Entity B, and 60 for Entity C, and the current fair value of a share of common stock in Entity Z is 45. Are the financial statements of Entities A, B, and C comparable if each measures its investment at cost? The answer is 'no' because the three cost amounts – 20, 40, and 60 – make the asset look different when it is the same. Thus,

cost makes like things look different, thereby failing to achieve comparability. Are the financial statements of Entities A, B, and C comparable if each measures its investment at fair value? The answer is 'yes' because all three entities would measure the asset at 45, which means that the same asset held by different entities looks the same. That achieves comparability. However, this conclusion is only clear because the fair value was specified in this example. To the extent that Entities A, B, and C need to estimate the fair value, they might estimate different amounts. In such a case, whether cost or fair value provides more comparability depends on whether the range of fair value estimates is smaller than 40, i.e., 60 minus 20. That is, it depends on whether fair value results in making the same asset held by the three entities look more alike than cost.

Some might argue that comparability is best achieved by reporting both amounts, for example if each entity measures the investment at cost and discloses the fair value. However, the *Conceptual Framework* is clear that disclosure is not a substitute for recognition and the limited academic research that exists on recognition versus disclosure tends to support that view.

What about measuring different assets of the entity in different ways? Can this achieve comparability? For example, presently we measure many financial assets at fair value and property, plant, and equipment at modified historical cost. We impair accounts receivable for incurred credit losses; property, plant, and equipment to recoverable amount; and inventory to lower of cost or fair value less costs to sell. We measure most long-term debt at amortized cost and derivative liabilities at fair value. There are many measurement methods used in financial reporting and most often the different measures apply to different assets. The question is whether this approach can achieve comparability.

As an example to illustrate this issue, consider the assets of Entity A and Entity B.

	A	B
Cash	500	500
Accounts receivable	1000	1000
Property, plant, and equipment	1500	1500
Total assets	3000	3000

The reported assets of these two entities – 3000 – make the assets look the same, and it appears that each entity's accounts receivable represents one-third of its assets and property, plant, and equipment represents one-half of its assets. If this reporting achieves comparability, then the two entities should have the same assets and these proportions should reflect the economics of the assets each entity holds.

What if Entity A measures accounts receivable at fair value and property, plant, and equipment at modified historical cost, with all amounts in US dollars? Assume Entity A's property, plant, and equipment was purchased at various times over the last ten years. What if Entity B measures all assets at fair value and cash is stated in US dollars, accounts receivable is stated in euros, and property, plant, and equipment is stated in Swiss francs? Are these two entities comparable? Do the proportions of total assets each reports for the three assets reflect the economics of the assets? The answer is 'no'.

How does a financial statement user compare Entity A's property, plant, and equipment with Entity B's? In addition, what do the 3000 in total assets for Entities A and B represent? Are these amounts comparable to each other? Are they comparable to anything? Each 3000 is the sum of three numbers derived on different bases. Like the sum of apples and oranges, its meaning is unclear. Many might react to this example by say-

ing that 'we would never account for Entity B's assets using different currencies and that would be true'. However, the distinction between using different currencies for Entity B's assets and using different measurements for different assets for Entity A is not clear. Why do we recoil at one and accept the other without question? One likely reason is that we are not accustomed to one but are accustomed to the other. Is there any other reason?

Can we achieve comparability if we measure the same asset in different ways – either for the same entity or different entities? For example, presently we treat computers as inventory for some entities (e.g., Apple) and as equipment for others (e.g., General Electric). We treat warranty obligations relating to sales of goods by retailers differently from insurance contracts issued by insurance companies even though they are both insurance contracts. We treat real estate as investment property for some entities (and measure it at fair value) and as property, plant, and equipment for others (and measure it at amortized cost). We treat the gain or loss on an item designated as hedged in a fair value hedge differently from the same gain or loss on an item that is not so designated (i.e., in a designated fair value hedge, we adjust the carrying amount of the hedged item for its change in value attributable to the hedged risk). In addition, we permit optional asset revaluation, application of fair value, and hedge accounting itself. All of these differences result in differences in amounts in the financial statements for what seem to be the same assets and liabilities.

Consider an example. Assume Entity A and Entity B each buys a piece of construction equipment for 200. Entity A classifies the equipment as inventory and Entity B classifies it as property, plant, and equipment. Six months later, both entities still own the equipment; Entity A holds it in inventory and B has depreciated it because it is available for use, but Entity B has not used it. Entities A and B both dispose of the equipment for a gain. In its income statement, Entity A displays revenue and expense, which net to the amount of the gain, and Entity B displays the gain net. The asset – a piece of construction equipment – is the same for both entities. Yet, the asset is measured at different amounts and the gain on disposal of the asset is presented differently. The question is whether the financial statements of Entities A and B are comparable.

Consider another example, which is often used to illustrate this issue. Assume that Bank A and Bank B each buys US Treasury securities at a cost of US$ 1 million. At the reporting date, the fair value of the securities is US$ 1.2 million. Bank A classifies the securities as trading (or fair value through profit or loss) and recognizes US$ 1.2 million in assets and a gain of US$ 0.2 million. Bank B classifies the securities as held to maturity (or amortized cost) and recognizes US$ 1.0 million in assets and no gain or loss. In both cases, the bank owns the same asset – US Treasury securities – purchased for the same amount – US$ 1 million – and now worth the same amount – US$ 1.2 million. Yet the financial statements of Bank A and Bank B are quite different. Does this financial reporting make like things look alike? That is, are the financial statements of Entities A and B comparable? The answer is 'no'.

Does 'use' of an asset affect its economics?

A question relating to comparability to which we do not have a good answer is whether two assets that seem the same (e.g., computers) are economically the same if they are used differently (e.g., as inventory or property, plant, and equipment). If the use of an asset affects its economics, we need to identify how the economics are affected so that we can determine whether and how the differences in economics should be reflected

when accounting for the asset. Accountants have been treating seemingly similar assets differently for a long time – the inventory versus property, plant, and equipment example is not new. However, we have never articulated why. Without knowing why different uses of an asset affect the economics of the asset that should be reflected in the accounting, it is not possible to determine when and how to reflect such differences. In addition, we need to know whether the notion of different uses of assets applies to all assets. In particular, does it apply to financial assets and liabilities? IFRS 13 concludes 'no' and explains why. But more thought needs to be devoted to this notion as it applies to non-financial assets.

Recently, the notion that the use of assets should affect the accounting for the assets has been characterized as reflecting an entity's 'business model'. Thus, the question can be rephrased as whether different 'use' of an asset depends on the entity's 'business model'. Unfortunately, the *Conceptual Framework* has no concepts about the role of business model in financial reporting. In addition, there is no definition of a business model and, thus, it is unclear what the term means. Some question whether an entity's business model differs in any substantive way from management intent (Leisenring, Linsmeier, Schipper, & Trott, 2012). Is the business model something that management is doing, plans to do, or only hopes to do? Is an entity's business model verifiable? Is it auditable? The answers to these questions are not obvious, which only adds to the lack of clarity about why and how a business model or intent should affect financial reporting.

What does research say?

Academic research provides evidence that global financial reporting with greater comparability can be beneficial to investors, by lowering costs of comparing cross-border investment opportunities and, for some countries and firms, by improving the quality of their financial reporting information. Research also shows that comparability can be beneficial to firms by increasing cross-border investment and by lowering cost of capital, presumably from reducing information risk and, for some, by increasing financial reporting quality. However, research also provides evidence that these potential benefits are tempered by cross-country differences in implementation, incentives, and enforcement.

One example of a study in this literature is 'Market Reaction to the Adoption of IFRS in Europe' (Armstrong, Barth, Jagolinzer, & Riedl, 2010). The questions motivating this study are: (1) did investors perceive net benefits to adoption of IFRS in Europe? and (2) if there were net benefits, are the net benefits associated with increased comparability or increased quality of financial reporting information? As with any single research study, this study cannot directly answer these questions. However, these motivating questions lead to two research questions that the study can answer. The first is: did the European stock market react positively (negatively) to regulatory events that increased (decreased) the likelihood of IFRS adoption in Europe? An affirmative answer to this question indicates that investors perceived net benefits to IFRS adoption in Europe. The second is: were there differences across firms depending on their pre-adoption information environment? Identifying differences across firms in the market reaction to the regulatory events provides insights into what firm characteristics are associated with the perceived benefits of IFRS adoption.

The study focuses on 16 regulatory events, which begin with the 2002 European Parliament resolution requiring all listed firms in the European Union to apply IFRS by 2005. The events end with the 2005 European Commission endorsement of the revised fair value option. The events and predicted signs of the effect on the likelihood of IFRS adop-

Reaction to the Adoption of IFRS in Europe – Individual Events

Event Date	Description	Predicted sign
Mar 12, 2002	European Parliament passes resolution requiring all EU listed companies to use IFRS by 2005	+
May 14, 2002	EFRAG issues draft recommendation to endorse all extant IFRS	+
June 19, 2002	EFRAG issues final recommendation to endorse all extant IFRS	+
July 4, 2003	Chirac sends letter to Prodi expressing concerns about IAS 39 and its potential negative effect on Europe	–
July 9, 2003	Bolkestein sends letter to Tweedie supporting adoption	+
July 16, 2003	ECOFIN and ARC support adoption of IFRS	+
Sept 29, 2003	EC endorses all extant IFRS, except IAS 32 and IAS 39	+
Feb 3, 2004	Bolkestein pledges to postpone endorsement of IAS 32 and IAS 39 until issues are resolved; sets up consultative group to facilitate resolution	+
Mar 30, 2004	HSBC announces intentions to implement IAS 39 in full	+
June 4, 2004	EFRAG issues draft recommendation to endorse IAS 32 and IAS 39	+
July 8, 2004	EFRAG issues final recommendation to endorse IAS 32 and IAS 39	+
Oct 1, 2004	ARC recommends endorsement of IAS 39, but recommends provisions relating to the fair value option and portfolio hedging of demand deposits be carved out	–
Nov 19, 2004	EC endorses IAS 39 with both carve-out provisions	–
June 16, 2005	IASB issues revised IAS 39 with new fair value option	+
July 8, 2005	ARC recommends endorsement of revised fair value option, thereby eliminating one of the carve-outs	+
Nov 15, 2005	EC endorses revised fair value option, thereby eliminating one of the carve-outs	+

Figure 1. Reaction to the adoption of IFRS in Europe.

tion are listed below. For example, the positive predicted sign for March 12, 2002 indicates that the study assesses this event as increasing the likelihood of IFRS adoption in Europe. The negative predicted sign for July 4, 2003 indicates that the study assesses this event as decreasing the likelihood. This event is Jacques Chirac, then President of France, sending a letter to the President of the European Commission stating that adoption of IFRS in Europe, particularly International Accounting Standard 39, the financial instruments standard, would have negative effects on the economy of Europe (see Figure 1).

The study finds an overall positive reaction to these events, and interprets this finding as indicating that investors perceive net benefits to IFRS adoption.[2] The study also finds that the market reaction is incrementally positive for firms with lower pre-adoption information quality and higher information asymmetry, and incrementally negative in code law countries. The study interprets these findings as indicating that investors perceive net benefits from increased financial reporting quality, but they are concerned about enforcement, which prior research finds is less rigorous in code law countries. Importantly, the study finds that there is a positive market reaction even for firms with high pre-adoption information quality, such as firms that use US Generally Accepted Accounting Principles (GAAP) or cross-list in the US. Because this positive market reaction cannot be attributed to increased financial reporting quality, the study interprets this finding as indicating that investors perceive benefits associated with comparability.

A second study in this literature is 'Are international accounting standards-based and US GAAP-based accounting amounts comparable?' (Barth, Landsman, Lang, & Williams, 2012). The questions motivating this study are: (1) is comparability with US GAAP reporting higher after IFRS firms adopt IFRS? and (2) does comparability differ across firms and has it increased over time? The study addresses three research questions. The first is: are accounting system and value relevance comparability with US GAAP-based accounting amounts higher after the IFRS firms adopt IFRS? An affirmative answer to this question indicates that IFRS-based accounting amounts are more comparable to US GAAP-based accounting amounts than amounts based on the IFRS

firms' prior domestic GAAP. The second is: are there differences for voluntary versus mandatory adopters, for firms from common versus code law and high versus low enforcement countries, and in more recent years? Identifying differences across firms and years in comparability with US GAAP-based accounting amounts provides insights into where and when comparability is greater. The third research question is: are earnings smoothing, accrual quality, and timeliness of earnings potential sources of increases in comparability? Answering this question provides insight into the potential sources of comparability, which enhances our understanding of how greater comparability is being achieved.

The study bases its inferences on a sample of firms from 27 countries that adopt IFRS from 1995 to 2006 and a sample of US firms matched on size and industry. The measures of comparability are based on assessing differences in how accounting amounts based on IFRS or US GAAP relate to economic outcomes. The economic outcomes are stock price and stock return, and the accounting amounts are earnings and equity book value. Accounting system comparability assesses the differences between predicted economic outcomes resulting from applying US GAAP and IFRS pricing multiples to each firm's accounting amounts. Value relevance comparability assesses differences between explanatory powers of accounting amounts for economic outcomes. The study employs metrics for earnings smoothing, accrual quality, and timeliness of earnings that have been studied in prior literature.

The study finds that comparability with US GAAP-based accounting amounts is higher after firms adopt IFRS. It also finds that both accounting system and value relevance comparability are higher for IFRS firms that adopted IFRS mandatorily, for firms from common law legal origin and high enforcement countries, and in more recent years. These findings are consistent with the effects associated with incentives of voluntary adopters reducing comparability, enforcement of standards enhancing comparability, and greater convergence between US GAAP and IFRS and other aspects of the financial reporting system increasing over time, thereby increasing comparability. Although US firms have higher value relevance than IFRS firms, value relevance is comparable to US firms for IFRS firms from common law and high enforcement countries. Finally, earnings smoothing, accrual quality, and earnings timeliness are all potential sources of greater comparability.

Comparability: when?

This is the big question. In the last ten years or so, we have been witnessing widespread adoption of IFRS and more global consistency in implementation and enforcement of the standards. Most countries are now part of the IFRS family – the last big holdout is the US – and efforts are underway to globalize auditing standards and coordinate enforcement by regulators. Thus, there has been progress on comparability that can be achieved by using the same accounting standards. However, more needs to be done. In particular, it is important for all entities to apply all standards that are word for word the same around the world[3] – not 'almost the same as', 'similar to', or 'based on' IFRS. Until all entities apply exactly the same standards, the necessary first step in achieving comparability will not have been taken.

The next step is to ensure that the requirements in standards achieve comparability. Unfortunately, standard setting is slow and the process results in evolutionary changes to financial reporting. The IASB employs an extensive due process to ensure all voices are heard and debates fully all aspects of every proposed change. Thus, changing

standards takes time even if we all agree. But, we do not. There are many unresolved questions that engender debate, some of which I have raised in this discussion on comparability: What do we mean by 'like things' and 'different things'? Does use of an asset change its economics? If so, how and why? What measurements should we use for various assets and liabilities and why? What information do investors need to make their capital allocation decisions and, thus, what information should financial statements portray? Regardless of the outcomes of the debates, inevitably there will be change that we, collectively, need to be willing to accept. Change, whatever it is, seems quite difficult for most people to embrace.

A word about the US

Any discussion of global comparability in financial reporting must at least briefly address the situation in the US. A brief review of history reveals that the US has been an active, supportive player in international accounting standards for a long time. Before 2001, the US was actively involved in the International Accounting Standards Committee, the predecessor to the IASB. The US also played an active role in the Strategy Working Party that laid the groundwork for the establishment of the IASB in 2001. In 2007, the US Securities and Exchange Commission (SEC) removed the requirement for non-US registrants to reconcile their non-US GAAP-based net income and equity book value to those based on US GAAP – provided that the registrant applies IFRS as issued by IASB without modification. In 2008, the SEC issued a 'Roadmap' for possible adoption of a single set of global standards. In 2010, the SEC confirmed its commitment to a single set of standards and issued the SEC staff 'Work Plan' to achieve that objective. In addition, from early in the IASB's history, the US Financial Accounting Standards Board and the IASB have worked closely together to converge the two sets of standards.

In 2011, the SEC articulated a possible method of incorporation of IFRS into the US financial reporting system, which was referred to as a 'condorsement' framework. Condorsement is a newly created word designed to convey a combination of *convergence*, whereby a country maintains its local standards but over time modifies those standards to be more like IFRS, and *endorsement*, which involves incorporating individual IFRS into existing local standards. The endorsement process envisioned in the condorsement framework is not fundamentally different from other countries' endorsement processes. In 2012, the SEC Staff issued its Final Report on the Work Plan, which summarizes the observations and analyses of the staff regarding six key areas identified for study in the Work Plan, but does not contain any recommendations by the Staff or decisions by the SEC regarding whether IFRS should be incorporated into the US financial reporting system or how any such incorporation should be implemented.[4]

The world is awaiting the SEC's next move regarding whether and how to incorporate IFRS into the US financial reporting system. It is unclear when the SEC will make any decisions relating to IFRS – most likely it will not be until 2013 or later. What is clear is that comparability is key to the SEC's decision. Comparability is one of the main motivations for the US considering a move to IFRS.

Concluding remarks

Comparability in financial reporting is key to promoting efficient allocation of capital. The adoption and consistent implementation of IFRS is a crucial, necessary first step in

achieving comparability. An often overlooked second necessary step is the need to improve the standards themselves relating to recognition and measurement to truly achieve comparability. The progress towards comparability in the last the ten years or so has been breathtaking. There always is room for improvement, but we are getting closer to achieving the goal.

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Notes

1. The term 'modified historical cost' is meant to acknowledge that presently almost no financial statement elements are stated at historical cost. Almost all amounts have been allocated, amortized, impaired, or 'modified' in some way. Thus, referring to them as 'historical cost' is not descriptive.
2. To combine events with positive and negative predicted signs, event returns relating to the predicted negative events are subtracted instead of added.
3. For example, the European Commission has 'carved out' portions of International Accounting Standard 39, the financial instruments standard, that relate to hedge accounting, and Chinese firms follow Chinese Accounting Standards for Business Enterprises, which are substantially converged with IFRS, but not totally converged.
4. See the 2012 IFRS Foundation staff report to the IFRS Foundation Trustees describing the IFRS Foundation staff's analysis of the 2012 SEC Final Staff Report on the Work Plan (the report is available on the IASB's website). For further discussion of the history of the IASB see Zeff (2012).

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