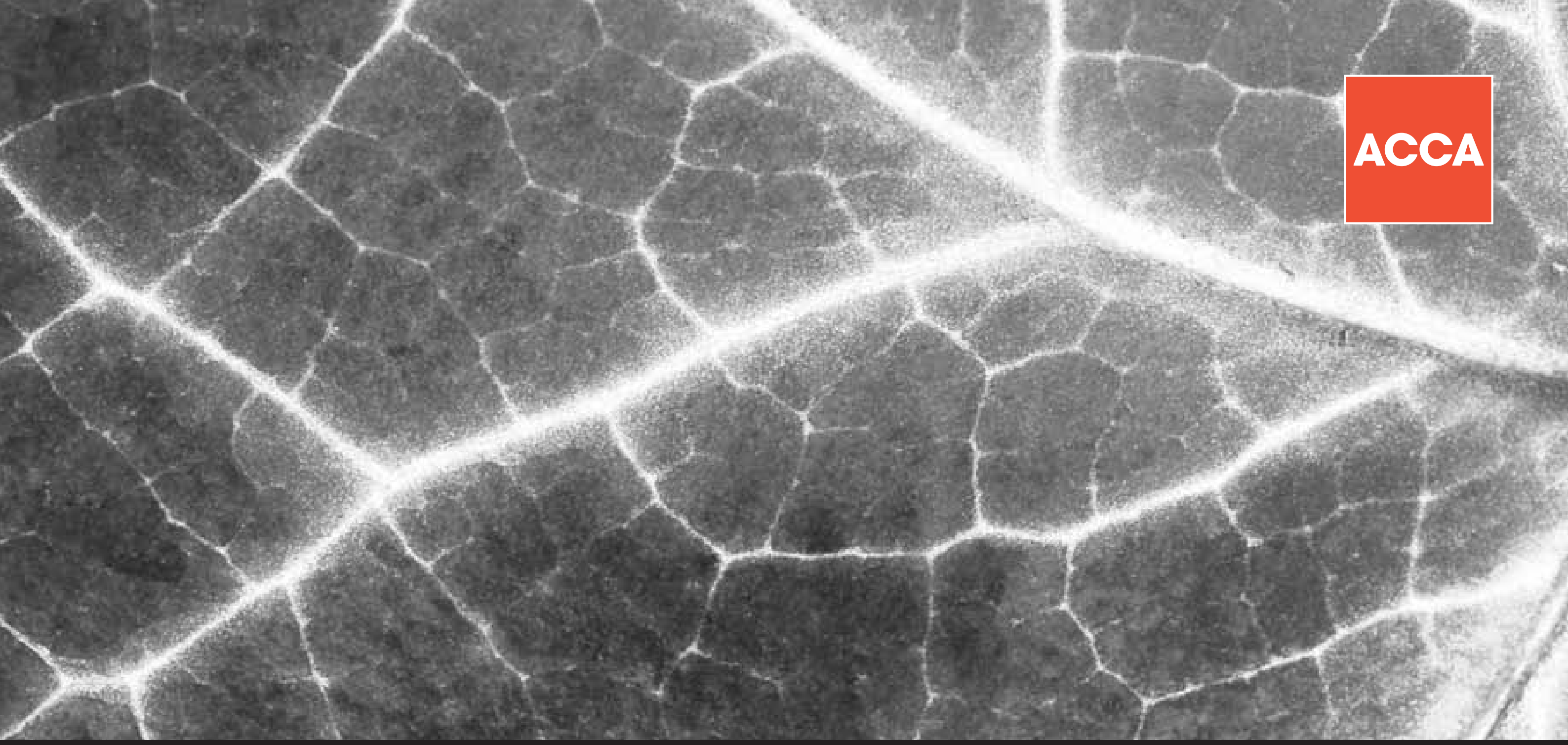
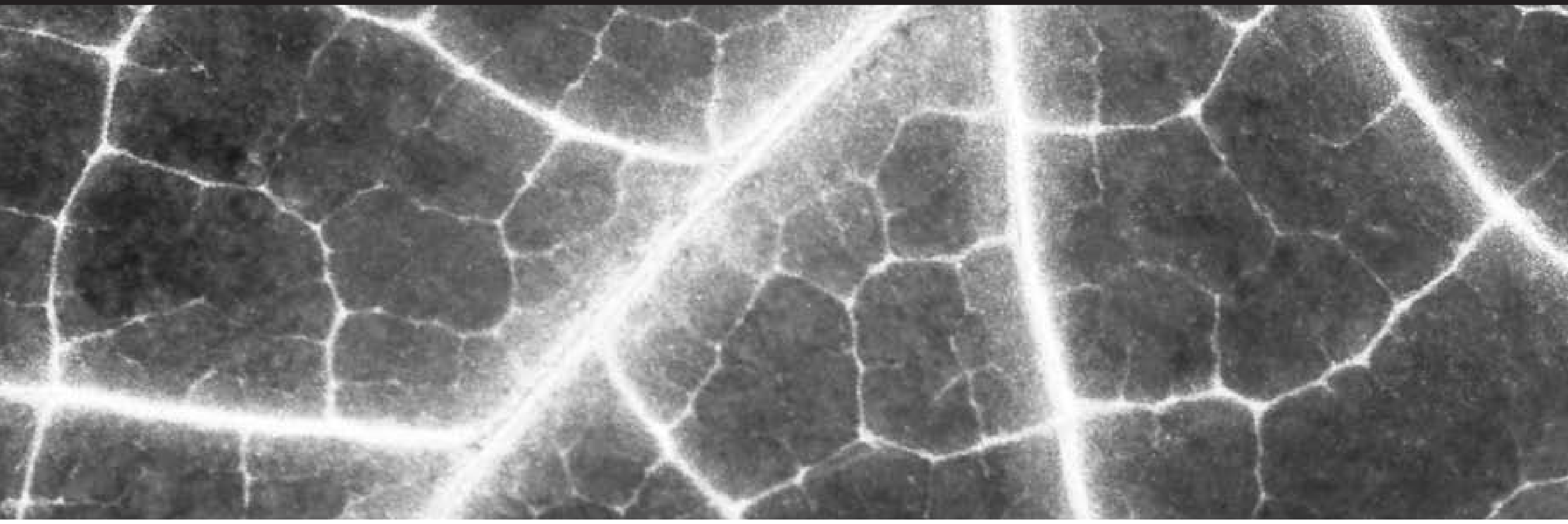


ACCOUNTANTS FOR BUSINESS

IFRS in the US: the investor's perspective



Investor survey by Forbes Insights

Forbes INSIGHTS

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 154,000 members and 432,000 students in 170 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 80 offices and centres and more than 8,400 Approved Employers worldwide, who provide high standards of employee learning and development

About Accountants for Business

ACCA's global programme, *Accountants for Business*, champions the role of finance professionals in all sectors as true value creators in organisations. Through people, process and professionalism, accountants are central to great performance. They shape business strategy through a deep understanding of financial drivers and seek opportunities for long-term success. By focusing on the critical role professional accountants play in economies at all stages of development around the world, and in diverse organisations, ACCA seeks to highlight and enhance the role the accountancy profession plays in supporting a healthy global economy.

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This report discusses the findings of a survey of US investors' perceptions of IFRS and the prospects for convergence. It shows that, if the US were to move towards convergence, as most investors expect, a successful transition would hinge on investor education and communications, a clear framework for auditors and the accounting profession, and an appropriate level of US influence over the standard-setting process.

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This report was written and produced by ACCA, using investor survey data provided by Forbes Insights.

All opinions presented here are those of ACCA and do not necessarily reflect the views of Forbes Insights or any other organization mentioned in the report.

Foreword

Helen Brand
ACCA chief executive

In July 2012, the Securities & Exchange Commission (SEC) delivered its long-awaited staff report on whether the US should adopt International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). This was followed in October 2012 by the IFRS Foundation staffs' analysis of the SEC's report, presented to the Foundation's trustees, which concluded that the US is well placed to achieve a successful transition to IFRS, 'thus completing the objective repeatedly confirmed by the G20 leaders.'

The debate on US adoption of IFRS continues, and the issue of global standards in accounting remains topical at the highest levels of global governance. The June 2012 G20 summit of world leaders in Los Cabos, Mexico reiterated support for 'continuing work to achieve convergence to a single set of high-quality accounting standards.' The G20 see convergence as central to securing the global economic recovery and will no doubt welcome any reassurance of the US's continued commitment to global standards.

ACCA is therefore extremely pleased to present this report on the prospects for IFRS convergence as seen through the eyes of US-based investors. In preparing it we have benefited greatly from the unparalleled access to the investor community provided by our longtime research partner, Forbes Insights.

We believe it is particularly important that the views of investors are heard in the debate on financial reporting standards. Users of financial reports have not always been able to provide consistent input or speak with a coherent voice in the standard-setting process, and policy-makers around the world have not always seen them as the appropriate starting point for a debate on the value of accounting standards. The danger of this is that the very people whom accounts are supposed to be prepared for are effectively excluded from the decision-making process.

Last year ACCA released *Towards Greater Convergence*, a global study which found general support among investors and CFOs for global standards, particularly as their jurisdictions gained experience of the standards. The findings of the present study, which is focused solely on the US market, contain many of the same insights.

Like business executives, US investors are for the most part convinced that IFRS will eventually be adopted and are more likely than not to see this as a good thing for the US economy. As in other countries, investors' attitudes towards global standards in the US are linked to their level of experience and understanding, and so is their level of interest in the standard-setting process. The best-informed US investors are very confident of the quality of disclosures under IFRS but also want their country to play an active role in shaping the global standards.

ACCA, as a global body for professional accountants with members in 170 countries, has long been a strong supporter of global standards and was the first major body to qualify accountants in IFRS.

We have supported bodies such as the International Auditing and Assurance Board (IAASB) and the Global Reporting Initiative (GRI) in their respective efforts to establish global standards for auditing and non-financial reports, as well as UNCTAD's tireless efforts to enhance the capacity and ability of the global accountancy profession to help bring nations into the world economy. But we are also contributing to the next phase of developments in corporate reporting, through the work of the International Integrated Reporting Council (IIRC). This work will culminate in a single, globally accepted framework for reporting on corporate strategy, governance, performance and prospects in a clear, concise and comparable manner.

The SEC has invited feedback to its staff report on IFRS convergence, and we hope it will consider carefully the evidence presented in this study: US adoption of IFRS would give, in our view, a tremendous boost to the cause of financial reporting, and more importantly, the US and world economies.

Helen Brand
ACCA chief executive

Executive summary

Although convergence between US generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS) has been the subject of much debate and collaborative effort, it is still unclear when the US Securities and Exchange Commission (SEC) will make a determination about how to proceed, or what its final decision is likely to be. The SEC has, in the meantime, invited responses to its final staff report, *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers,* to which the present report provides timely feedback.

The report discusses the findings of a survey of 493 US-based investors with a combined $2.3 trillion under management (conservatively estimated). This survey was carried out by Forbes Insights on behalf of ACCA and was designed to help compare investor perceptions with those of business executives as recorded in past research by third parties.

Our findings contribute substantial, high-quality evidence to the debate on IFRS adoption and the likely process and challenges of convergence. Coupled with ACCA's research literature on the value of global standards in reporting, audit and governance, they also provide a means of comparing perceptions in the US to those of executives and investors in countries that have adopted IFRS or are in the process of doing so. In particular, many of the findings of ACCA's global research discussed in the 2011 report, *Towards Greater Convergence,* are borne out in the US.

The general perception among investors is that the US will eventually adopt IFRS, and more investors feel this will be beneficial for the domestic economy than not. While many investors are yet to be convinced of the merits of the standards, those most familiar with IFRS are very confident about the level of disclosures and the prospects for early adopters.

The cost-benefit calculation around IFRS adoption is not straightforward, but the present study has isolated the five questions that most influence investors' attitudes towards the prospect of IFRS adoption, by order of significance:

- Will IFRS adoption lead to reduced complexity for US corporates?
- Is IFRS adoption going to lead to a dangerous loss of US influence over the standard-setting process?
- Are US corporates likely to see cost savings and synergies emerging as a result of IFRS adoption?
- Will IFRS adoption make it easier to compare the performance of US corporates with that of other companies overseas?
- Are US auditors likely to second-guess management more frequently as a result of IFRS adoption?

Investors believe that IFRS convergence would require a substantial investment in human capital – not least within their own community, where awareness of international standards is not high. The best-informed investors believe, on average, that it will take four and a half years for US corporates to become ready for IFRS, in line with expectations within industry, and there is evidence that investors and business executives are familiarizing themselves with IFRS at roughly the same pace.

The report findings suggest that confidence in the standards will improve substantially as investors and analysts become more familiar with them. On the other hand, higher levels of awareness will also tend to shift the debate from the quality of disclosures and the merits of early adoption to the IASB's standard-setting process, its structure and governance.

When it comes to the mechanics of converting to IFRS, investors call for a reasonable transition period between the announcement of convergence plans and the deadline for compliance. Most argue that there should be a guarantee of full convergence at the end of this transition, and many would welcome the option for companies to adopt IFRS ahead of time.

The ideal early adopter of IFRS would be a company for which the US was simply a corporate location, with multiple entities reporting under multiple standards. Other early adopters would, however, need to manage their investor communications from an early stage. Our findings suggest that early adopters would be seen as proactive and flexible organizations that have 'seen the writing on the wall', and are more likely to be seen as well managed than not. However, there are also some investors who would need to be satisfied that management is not simply taking an opportunity to manipulate earnings. Some US investors could demand an 'IFRS premium' in order to invest in early adopters, although this would probably be short lived.

Finally, investors' views suggest that the accountancy profession in the US is likely to play a crucial part in the process of converting to IFRS that would extend beyond ensuring compliance. In particular, a clear framework for accountants and auditors, putting emphasis on addressing managerial discretion, is likely to prove important in building confidence and addressing investors' remaining concerns about international standards.

1. Background

In December 2011, PwC published the *US IFRS Outlook Survey* (PwC 2011), a major study of US corporates' attitudes toward, and preparations for, the prospect of reporting under International Financial Reporting Standards (IFRS), as well as some of the proposed methods of convergence.

At the time of the survey, most of the respondents in industry felt that IFRS reporting would eventually become mandatory in the US, and that this would result in a net benefit to the US economy in the long run. Gradual convergence was seen as the most appropriate course of action, and the endorsement method of convergence suggested by the SEC in their May 2011 paper (SEC 2011) was seen as a viable means of achieving this. There was also significant support for allowing companies to adopt IFRS on a voluntary basis.

Some costs and benefits of IFRS (staff training costs, savings from reporting against a single set of standards in multiple jurisdictions) are more visible to industry than to other stakeholders. On the other hand, those who finance business growth, including creditors and investors, are better placed to assess some of the purported benefits of IFRS, because their preferences and perceptions will determine the availability and cost of capital for corporates.

This potential for complementary views on IFRS between industry and investors gave rise to the present study, which extends the methodology of the US IFRS Outlook Survey to a sample of US-based investors. A survey of investors was carried out on behalf of ACCA by Forbes Insights in two waves – a first wave between 18 and 21 May 2012, targeting occupations involved in the management of investments, and a 'booster' wave, specifically targeting professional investment managers, asset managers and fund managers between 25 June and 4 July 2012. Both waves drew respondents from the Forbes Insights reader/subscriber base and overall the survey achieved 493 responses from individuals with combined assets under management (AUM) of at least $2.3 trillion (see Appendix). While this survey was conducted prior to the release of the final SEC staff report on the *Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers*, we note that the SEC has welcomed feedback from stakeholders. This report contributes to this debate with evidence from arguably the most important stakeholders – investors themselves.

In addition to comparing the views of executives and investors, this report also considers how US perspectives compare with those from countries where IFRS are being or have been adopted. ACCA has amassed substantial evidence on the latter which could suggest possible outcomes for the US.

In 2008, an ACCA-commissioned study of IFRS adoption and the cost of capital in Europe (Lee et al. 2008) found that the benefits of adoption were greatest for those capital markets in which institutional quality was high and stock markets were a relatively more significant source of finance, compared to bond markets or banking.

In October 2011, ACCA published *Towards Greater Convergence* (ACCA 2011), an international study of perceptions of global standards in reporting, governance and audit. The study found that investor perceptions of global standards improved with increased familiarity and that, post-implementation, CFOs and investors both tended to see a net benefit to their national economies, largely in terms of cross-border activity and improved access to finance. It also documented that the financial crisis had increased support for international reporting standards among executives and even more so among investors.

Finally, a forthcoming ACCA-sponsored study of the effects of IFRS adoption in China (Lee et al. forthcoming) has found that the companies with the greatest demand for external capital experienced a greater increase in the value relevance of their reported earnings following adoption of IFRS. This includes firms in more competitive industries, less developed regions, under less state control, with greater foreign ownership, and in receipt of less government subsidy.

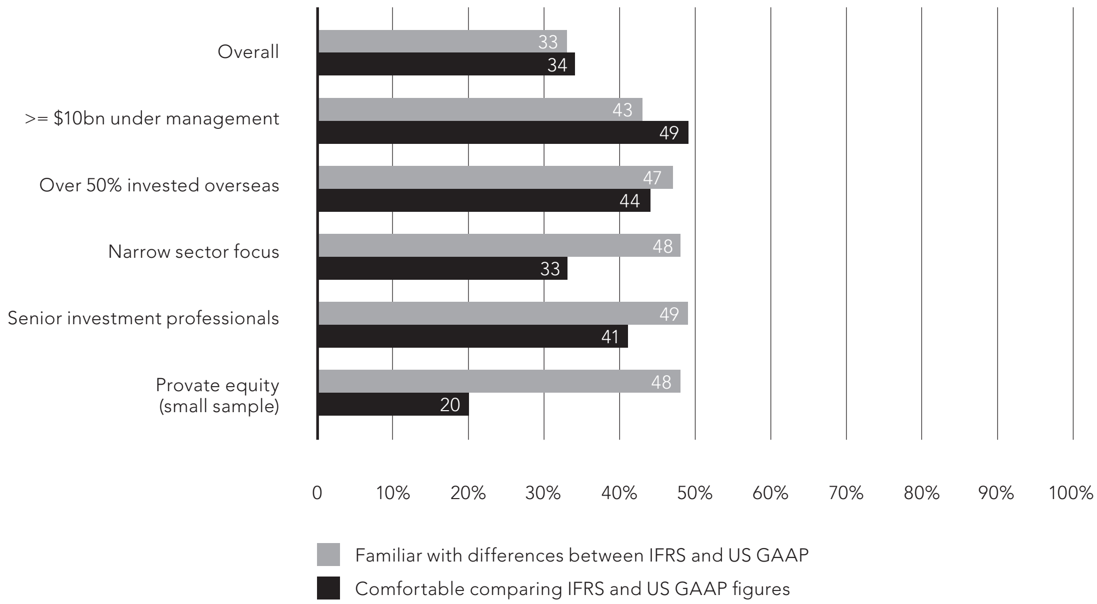
2. How familiar are US investors with IFRS?

Awareness of IFRS among US-based investors is modest. When asked about this directly, only about one-third (34%) of investors felt able to cite specific differences between US GAAP and IFRS. A different approach is to consider how comfortable investors are in comparing statements prepared under IFRS with statements prepared under US GAAP. The results were quite similar under this approach, with 38% of the investor sample claiming to be comfortable comparing statements.[1] While these figures may appear to be low, it is important to remember that they reflect only the percentage of people committed to understanding IFRS ahead of the rest of the investor community. Others would soon catch up if adoption were to become a certainty.

It is not surprising that some in the US investment community are more knowledgeable about IFRS than others (Figure 2.1). Investors with primarily overseas investments were more likely to have a substantial understanding of IFRS, while financial advisers and professionals working in private equity were generally less familiar.

Similarly, investors with an accounting background and senior investment professionals (fund managers, investment managers, chief investment officers and other board-level executives) were more confident comparing figures between the two sets of standards. The more tightly focused investors were on one particular sector, the more confident they were

Figure 2.1: Percentage of investors claiming adequate understanding of IFRS and confidence in their ability to compare IFRS and US GAAP figures – highlighting key groups comfortable with reconciliations



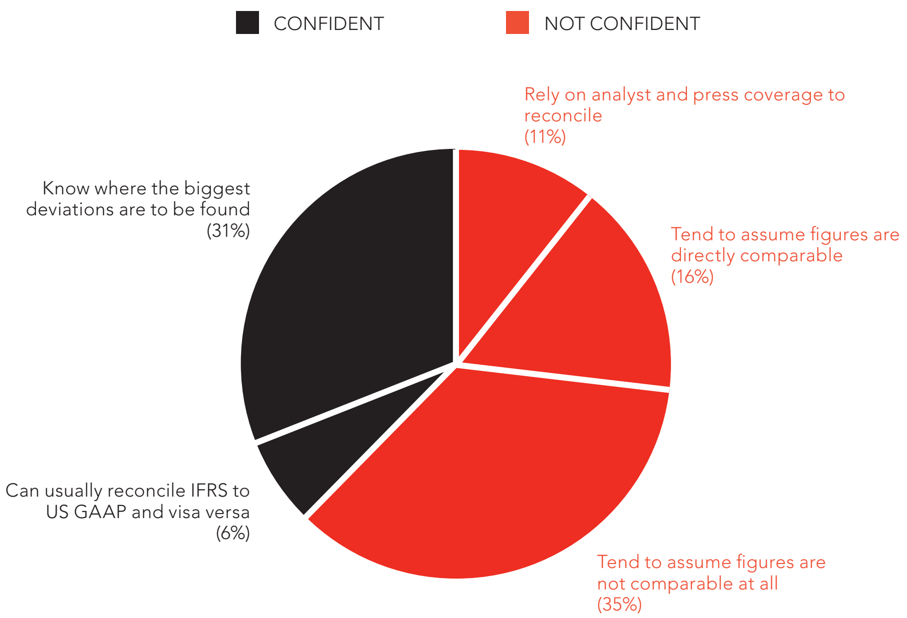
1. This group includes all respondents who claimed they knew 'where the biggest deviations were to be found' between IFRS and US GAAP figures or could 'usually reconcile IFRS to US GAAP and vice versa.' Throughout this report, any mention of investors 'able to reconcile' will refer to this broad group.

in their ability to make comparisons across IFRS and US GAAP. Since large funds are more likely to take international positions and employ senior investment professionals, the level of understanding among these is typically higher.

It is important to remember that many in the investment community could and would rely on support staff and third parties when dealing with statements prepared under IFRS. Around one in six respondents reported they were comfortable reconciling figures between the two without necessarily knowing the differences themselves. Senior investment professionals (as defined above) were 50% more likely than others to fall into this category.

When looking at how investors would assess figures under IFRS and US GAAP (Figure 2.2), it is interesting to note that the largest percentage of investors who are not confident reconciling the two would treat the standards as not comparable at all. Since the vast majority of US-based IFRS training classes are taught using a 'comparison to US GAAP' approach, such responses will tend to reflect a lack of engagement with the standards and would likely be short-lived if reporting under IFRS were to become mandatory.

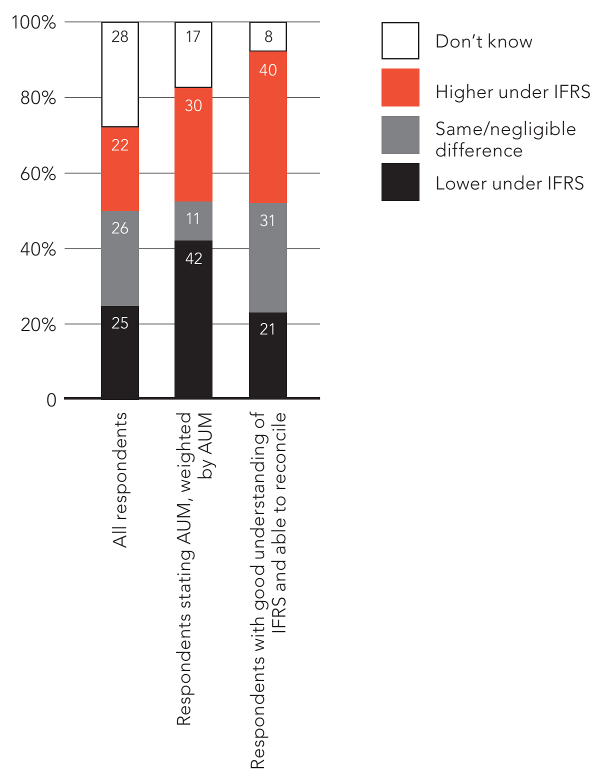
Figure 2.2: How confident are investors comparing figures under IFRS and US GAAP?



3. How do investors assess the quality of disclosure under IFRS?

On balance, investors perceive only a marginal difference in the quality of disclosures between US GAAP and IFRS (Figure 3.1). Only 22% of investors claimed that the quality of disclosures under IFRS is higher, against 25% who favored US GAAP. Nonetheless, both groups were outnumbered by those who were unsure or believed that quality varies depending on the business (28%) as well as those who argued that there was little difference in the quality of disclosures (26%).

Figure 3.1: Perceptions of the quality of disclosure under IFRS compared to US GAAP



Three broad groups of factors influence the perceived quality of disclosures.

FAMILIARITY.

Respondents who claim to be familiar with IFRS and able to reconcile between these and US GAAP tend to have a higher opinion of international standards. In fact, on balance they tend to believe they give rise to higher-quality disclosures than US GAAP. These findings confirm in a US context what ACCA (2011) documented internationally in *Towards Greater Convergence*: approval of the standards tends to increase with familiarity as benefits become more obvious and the challenges of implementation are put into context.

WESTERN WORLD V. EMERGING MARKET FOCUS.

Respondents who invested mostly in the US but also had some overseas investments generally held a less positive view of the quality of disclosure under IFRS than others, and those whose overseas positions were mostly in developed countries were least positive. These findings suggest that investors with a significant focus on emerging markets are more accepting of IFRS.

PROFESSIONAL COMMUNITIES.

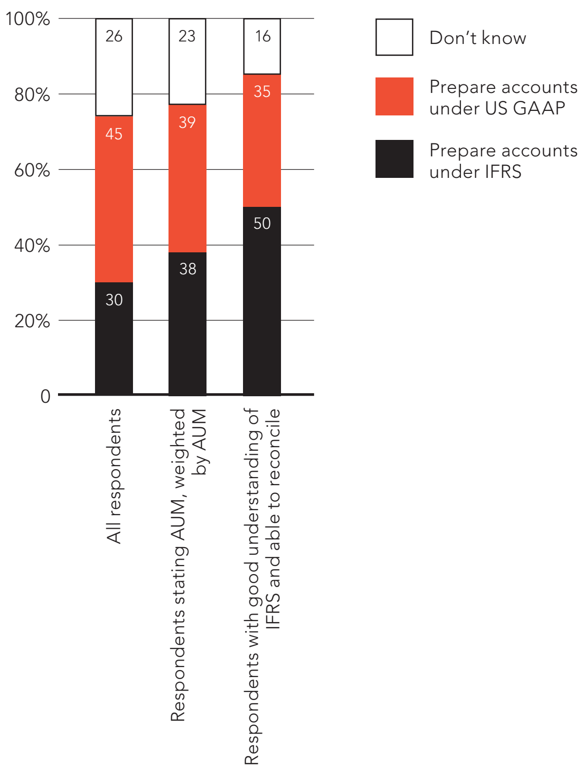
Although their higher level of familiarity with IFRS means that those in accounting functional roles tend to have more confidence in disclosures under IFRS than many other investors, their background also makes them more aware of the pros and cons. Compared to investors with similar levels of awareness, fund managers and investment managers, as well as those investing on behalf of non-profit organizations and individuals or families tend to have more confidence in IFRS. Investors in corporate bonds tend to have less.

4. The option of adoption

Only 21% of business executives surveyed for the US IFRS Outlook Survey (PwC 2011) could state with some certainty that their companies would opt for early adoption of IFRS, given the chance.

Investors look upon voluntary adoption slightly more favorably than do executives in industry. About 30% would recommend voluntary adoption to a hypothetical US-based company (Figure 4.1), although attitudes were more positive among investors managing large portfolios and those most familiar with IFRS. Both of these groups would, on balance, tend to recommend early adoption.

Figure 4.1: What investors would recommend to a company with the option to report under IFRS or US GAAP



On the basis of investors' verbatim responses, it seems that an ideal early adopter of IFRS would be a company for which the US was just a corporate location, with multiple entities reporting under multiple standards. There would therefore be clear savings to balance out the learning costs. Within a model early adopter, decision-makers within the company would share a sense of consensus about IFRS, believing that US regulators were ultimately comfortable with IFRS policies and practices and that that the rest of corporate America was bound to follow suit.

Many investors, especially those with larger portfolios, would read little into a company's decision to adopt IFRS early. Those who would read something into this choice, however, are marginally more likely than not to treat it with skepticism. About one in five (19%) would be more confident about a company in which they were investing following voluntary adoption.

As with ratings of the quality of disclosure, investors' reactions to voluntary adoption of IFRS are strongly correlated with their level of familiarity with the standards. Better-informed investors would tend to see voluntary adopters in a more positive light and would, on balance, be more confident about investing in early adopters. On the other hand, investors focusing on a narrow range of similar sectors would be more likely to question voluntary adoption, as they would stand to lose the most in terms of clarity and comparability. Respondents working for hedge funds were the most open to voluntary adoption.

If less informed investors have a less positive view of disclosures under IFRS, there could be a short-lived adverse effect of early adoption on the cost of capital which would be reversed as investors become familiar with the standards. Not all investors will be able or willing to absorb the learning costs involved at first. Some could decide that early adopters are riskier or avoid them altogether (Table 4.1), and companies may need to generate better returns, an 'IFRS premium', to compensate these investors. This could in turn create a short-lived 'IFRS arbitrage' as increased familiarity with the new standards gradually reduces the 'IFRS premium'.

An analysis of verbatim responses provides more detail about the probable reactions of investors.[2]

Many respondents would interpret early adoption as a sign of international activity or of a proactive company that sees 'the writing on the wall' in a world gradually converging to international standards (Figure 4.2). More respondents would treat it as an indication of good management than one of poor management. That said, 19% argued that early IFRS adoption could be an indication that earnings might be manipulated, while fewer respondents saw it as a sign of commitment to better disclosure. Finally, many expected that it would prompt them to perform more careful due diligence.

Table 4.1: The skeptics' responses to perceptions of the quality of disclosures under IFRS

	Total
I would tend to avoid companies that report according to IFRS	28%
I would consider companies that report according to IFRS to be riskier than they look on paper	49%
Would avoid OR treat as riskier (IFRS Premium)	**66%**
I would put time and resources into reconciling reported figures to US GAAP	56%

Notes:

Investors who felt that the quality of disclosures under IFRS was 'inferior' to the quality of disclosures under US GAAP were asked how they would respond to companies reporting under IFRS.

Responses reflect only the views of respondents who believe disclosures under IFRS to be of lesser quality. Responses have been weighted by approximate Assets under Management (AUM). Respondents were able to select multiple responses.

Figure 4.2: Expected attributes of companies opting for early IFRS adoption

2. The question asked was 'Suppose a company whose stock or debt you owned, or a company in which you were considering investing, were given the option of preparing its accounts on the basis of either IFRS or US GAAP, and opted for IFRS. What would this tell you about the company in question?' Note that only verbatim responses suggesting a clear signal (242 in total), as opposed to a positive/negative reaction, were included in this analysis.

5. The prospects for adoption

Among the sample of investors, 57% believed that the SEC will one day require reporting under IFRS, and more investors agreed that the long-run benefits of adoption would outweigh the costs than disagreed (41% against 29%) (Figure 5.2). This is a marginally more cautious outlook than that of executives in industry (PwC 2011), although those investors most familiar with IFRS were more likely to anticipate convergence. In both cases, many respondents felt unable to make any prediction.

Using CHAID (Chi-squared Automatic Interaction Detection) or decision tree analysis,[3] it is possible to identify the ways in which these perceptions were formed (see Appendix, Figure A4). Decision tree analysis uses respondents' detailed views on international standards to break down a complex question (in this case, 'will there be a net benefit from IFRS adoption?') to a series of simpler ones. It does so by selecting, at every step, the question most likely to divide the sample into groups with significantly different views on the net benefits of IFRS. This analysis returned two main narratives.

The first narrative relates to the cost savings that multinational firms can achieve through a single set of reporting standards. Respondents who believe IFRS can reduce complexity are more likely to believe that adoption will be beneficial, and those who *also* believe they can achieve cost savings and synergies in the long run believe in IFRS's benefits even more so. Respondents who believe IFRS can *both* reduce complexity *and* achieve cost savings are overwhelmingly convinced that adopting IFRS will be worth it.

Respondents who do not expect IFRS adoption to automatically lead to reduced complexity are those more likely to focus on the costs and benefits to corporates with more extensive operations in the US and a less globalised structure. Theirs is the second narrative identified by the decision tree analysis, and it focuses more on the quality and relevance of disclosures. These investors fall into two broad groups.

Figure 5.1: Will SEC come to require mandatory reporting under IFRS?

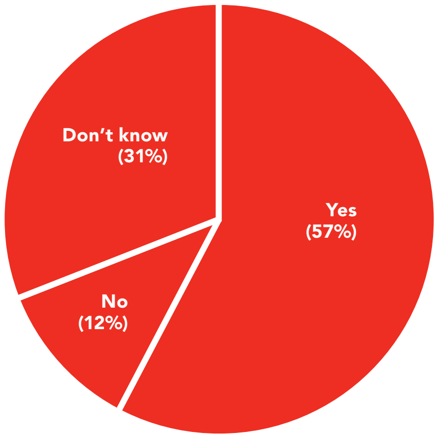
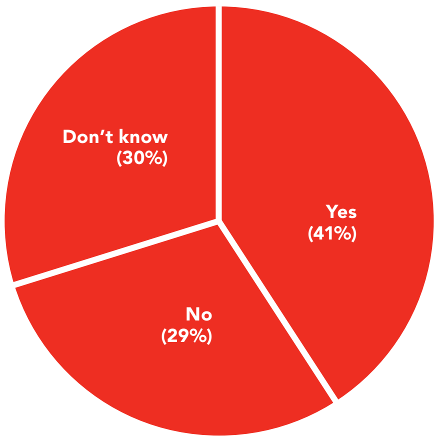


Figure 5.2: Will benefits outweigh costs?



3. Determinants included in the analysis include respondents' roles and industries; their approximate assets under management; the types of investment in which they engage and the range of regions and sectors in which they trade; respondents' level of familiarity with IFRS; the perceived quality of disclosures under IFRS; the relative significance of respondents' concerns about IFRS and the IASB; the perceived benefits and challenges arising from adoption of IFRS; the perceived level of preparation among US corporates; and the expected time they would require to adapt to IFRS.

The first group includes investors who are concerned about the loss of US influence in the standard-setting process. For these investors, what will decide the outcome of IFRS adoption is chiefly the response of the audit profession in the US to the switch from US GAAP to IFRS. Some expect increased management discretion to lead to regular second-guessing of disclosures by auditors, and as a result they are particularly pessimistic about the benefits of the transition to IFRS. Those who are not worried about the reaction of the audit profession are less pessimistic.

Finally, there are a group of investors who are not overly concerned about the loss of US influence in the standard-setting process, but *are* concerned about the ability of IFRS to deliver superior comparability of financial statements across jurisdictions. Those who expect greater comparability are more optimistic about the net benefits of IFRS adoption in the long run.

6. Hot prospects and cold feet

Investors in the sample generally believed that the level of preparation for IFRS among US corporates was moderate: only 16% believed that US corporates were 'prepared.' The US IFRS Outlook Survey indicates that about one-third of corporates are at least planning an impact assessment, which suggests that investors may attach more significance to concrete examples of preparation, such as complete impact assessments.

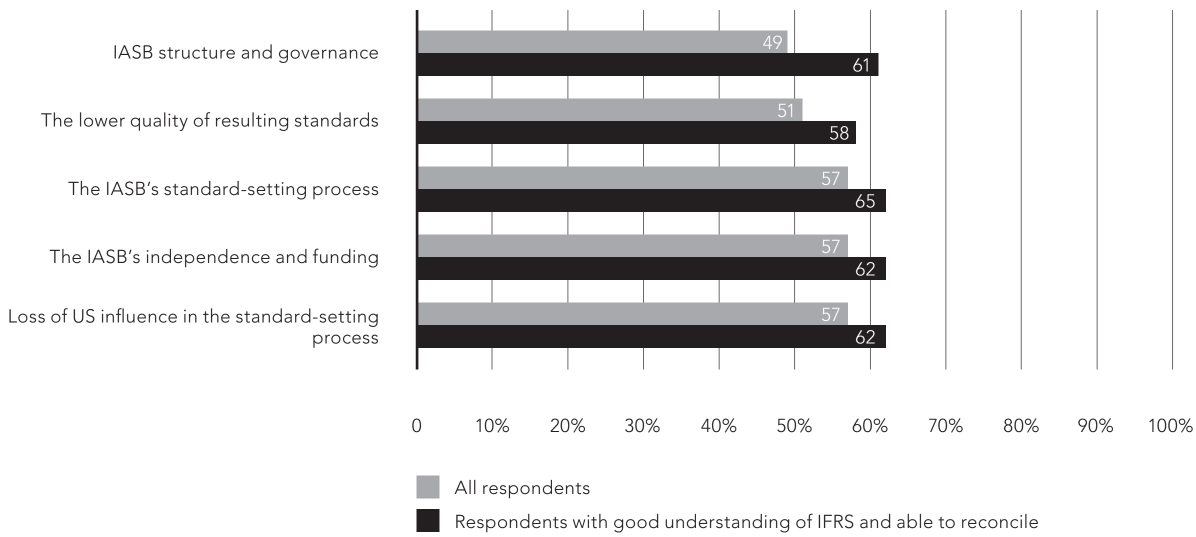
In their knowledge of international standards, however, industry and investors are progressing at roughly the same pace. Just over one-third of each population has sought an advantage through familiarizing themselves with IFRS early on. Moreover, investors who are more familiar with IFRS estimate that it will take US corporates about 4.5 years to prepare for IFRS, which is close to the estimate of 4 years derived from the US IFRS Outlook Survey.

Because the use of IFRS is not mandatory and there are as yet no plans to make it so, it is important not to make assumptions about the level and ease of compliance in a hypothetical scenario of IFRS adoption. That said, gauging levels of familiarity *does* allow estimates to be made of how confidence in disclosures might be affected in such a hypothetical scenario.

Importantly, the results here show that US investors' perceptions of the quality of disclosure under IFRS tend to improve with increasing familiarity. On the other hand, higher levels of awareness tend to shift the debate from the quality of disclosures and the merits of early adoption to the IASB's standard-setting process, its structure and governance (see Figure 6.1).

As discussed in Section 5, it takes a great deal of concern over the loss of US influence to change investors' views on the net benefit of IFRS adoption (more than 7 out of 9 on the scale used in this study). Only 28% of the investor sample expressed this level of concern.

Figure 6.1: Investors' concerns related to the IASB as a standard-setter

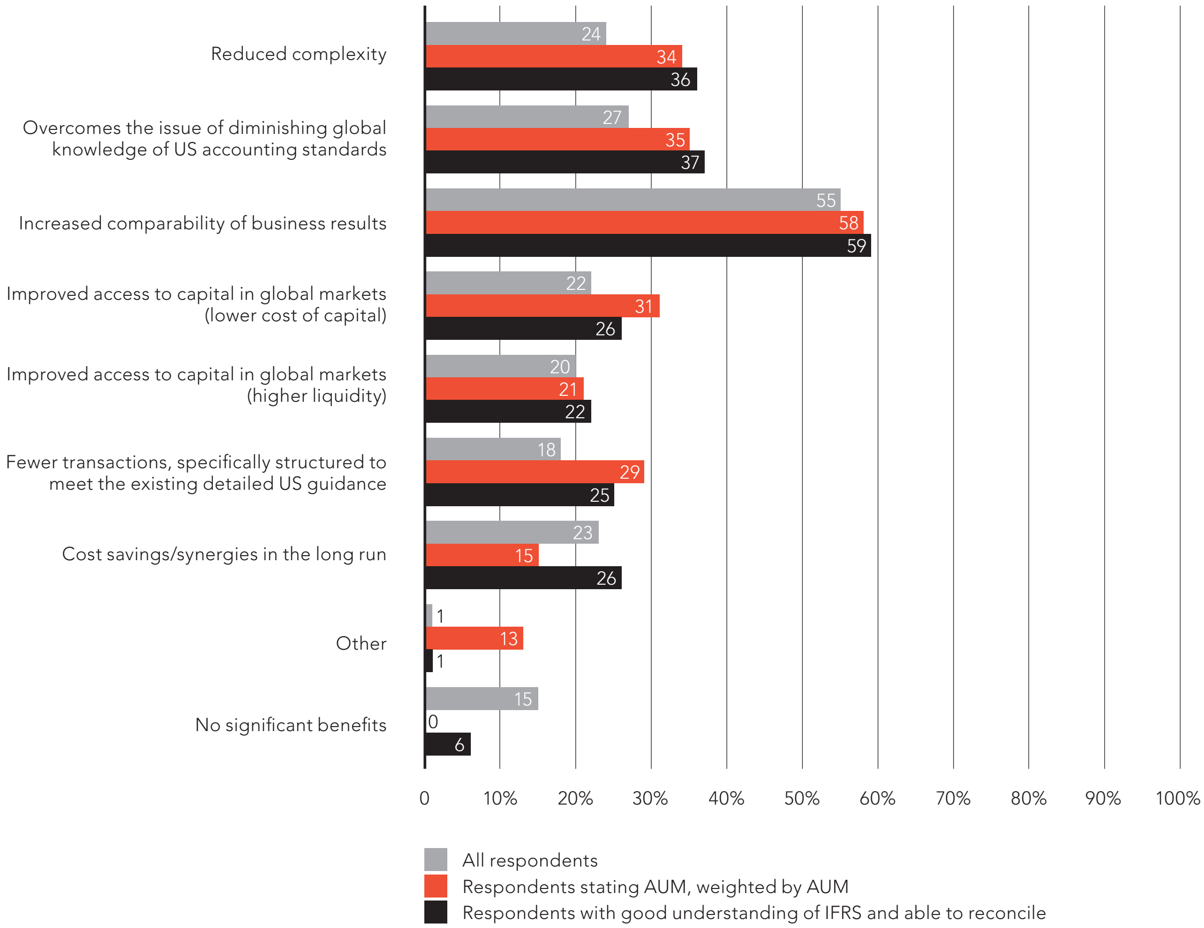


As Figure 6.2 demonstrates, the most commonly anticipated benefit from IFRS is the increased global comparability of financial reports, which was cited by 65% of investors, in line with the 70% of respondents from industry who reported the same in PwC (2011). Importantly, asset managers and those managing international portfolios were more confident that such benefits would materialize than other investors. This is in line with ACCA's global findings, discussed in *Towards Greater Convergence*, which suggested that international investors generally hold more positive views of the effects of IFRS adoption on the ability of capital markets to allocate funds to productive uses.

As global standards are adopted in ever more overseas jurisdictions, understanding of US GAAP by foreign investors and stakeholders could diminish with time. While this is not seen by most investors as a major part of the case for IFRS, it is ranked as the second most important benefit of the standards by those more familiar with IFRS, as well as by investors managing larger portfolios (see Figure 6.2).

There was much less consensus on the two other particularly important benefits: reduced complexity and cost savings, cited by 28% and 27% respectively. Chief investment officers were, however, more likely to cite reduced complexity as a

Figure 6.2: Expected benefits from mandating IFRS

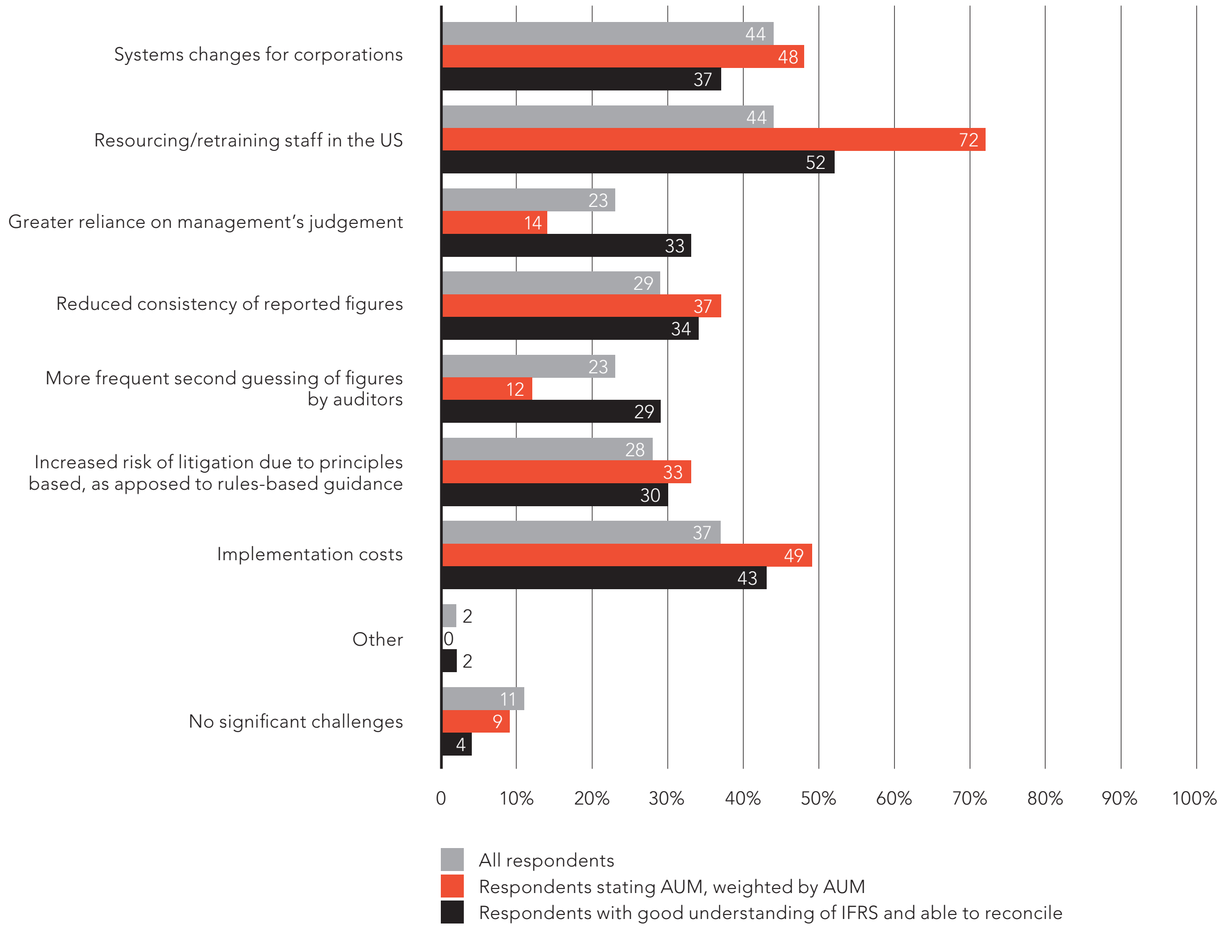


benefit of IFRS adoption. Overall, it is the one-off costs associated with adoption that investors are most concerned about – the possible long-term challenges are seen as less problematic.

The most commonly cited challenge in IFRS adoption was the need for training (44%). A similar number cited systems changes as a concern. In this regard, investors have taken a different approach to that of industry respondents in the US IFRS Outlook survey, with the latter group being more likely to cite implementation costs as a concern. That said, better informed investors and those with larger portfolios cited implementation costs more frequently; it is possible that these investors are more familiar with the mechanics of implementation among corporates.

One less frequently cited concern, namely the potential for second-guessing of accounting treatments and assumptions by auditors, is particularly important to the case for IFRS in the US. Only 23% of investors cited this as a concern, compared to 56% of industry respondents in PwC (2011). Chief financial officers, investment advisers, and respondents more familiar with IFRS were less likely to express such concerns.

Figure 6.3: Expected challenges arising from mandatory IFRS



7. Getting convergence right

Since both investors and executives in industry believe that a US move to IFRS is very likely at some point in the future, it is important to discuss how it can best be executed. This survey breaks the SEC proposals into their constituent elements in order to determine what it is about them that investors approve or disapprove.

As Table 7.1 indicates, two elements of the SEC's proposed approach emerged as the most significant: a) a reasonable transition period between the announcement of convergence plans and the final deadline for implementation and b) an aim for complete convergence with IFRS by the end of this transition period.

Respondents with more experience with IFRS tend to be more aware of the IASB's standard setting process and the need for US input, and were therefore more likely to call for FASB coordination with the IASB. They, along with investors managing larger portfolios, also appear to strongly support the option of early, voluntary adoption of IFRS.

Table 7.1: Relative importance of the various elements of the SEC's proposed convergence methods

	All respondents	All respondents stating AUM, weighted by AUM	All respondents with good knowledge of IFRS and able to reconcile with US GAAP
Retaining the primacy of a US standard-setter	6.00	5.31	6.09
FASB participation in the standard setting process, regardless of whether FASB or IASB is the ultimate standard-setter	6.28	5.88	6.57
The option of a selective incorporation of individual IFRSs into US GAAP on the basis of FASB endorsement	5.81	5.44	6.10
The option for the FASB to adjust individual IFRSs prior to incorporation within given 'tolerance' levels of compliance with IFRS	5.80	5.41	6.25
A reasonable transition period between the announcement of and the final deadline for convergence	6.45	6.36	6.84
Full compliance with IFRS at the end of this transition period	6.24	6.64	6.71
The use of different mandatory adoption dates for individual IFRSs	5.41	5.16	5.81
Allowing companies the option of adopting IFRS early, ahead of any mandatory dates	5.86	6.45	6.50

Note: all figures are average ratings, where 1 = not at all important; 9 = extremely important.

8. Conclusions and recommendations

This report contributes to an ongoing debate on the prospects for IFRS convergence in the US. Using a sample of US-based investors with a combined $2.3 trillion under management (conservatively estimated), it provides a significant stakeholder perspective complementing recent research on views from industry and ACCA's global research on the impact of IFRS adoption in other jurisdictions.

There is a great deal of agreement between business executives in industry and investors about the preparation for IFRS and the prospect of convergence in the US: the general perception among both is that the US will eventually adopt IFRS and more investors and business executives expect that adoption will benefit the US economy in the long run than not. This report provides strong evidence that approval of IFRS will tend to increase further as investors become more familiar with the standards.

These findings fit well into ACCA's international evidence base. The 2011 ACCA report, *Towards Greater Convergence*, demonstrated that investors and executives also tend to report a net benefit in countries where IFRS *have* been adopted, and their perceptions have tended to improve over time due to greater familiarity. That said, the case for IFRS in the US is far from straightforward and hinges on a number of calculations. These include the potential synergies and cost savings for multinational firms; the international comparability of financial statements; the continued influence of the US over accounting standards; and the positive and constructive reaction of the audit profession.

TIPPING THE SCALES: SECURING BENEFITS FROM POTENTIAL IFRS ADOPTION

Within both industry and the investment community, the comparability of financial reports across jurisdictions is the most commonly cited potential benefit of IFRS, and this report demonstrates how crucial it is to the case for IFRS in general. Influential professionals such as chief investment officers were more likely than others to look forward to internationally comparable reports under IFRS and, even more importantly, so do investors with more international portfolios.

When it comes to the mechanics of convergence, US investors call for a reasonable transition period between the announcement of convergence plans and the deadline for compliance. Most want a guarantee of full convergence at the end of this transition, and many would welcome the option for companies to adopt IFRS early; but investors would also need to be reassured of the US's continued influence over the standard-setting process.

FIRST MOVER ADVANTAGE?

There is little doubt as to who investors would expect to see adopt IFRS first if such an option were to become available. The ideal candidate would be a company for which the US was simply a corporate location, with multiple entities reporting under multiple standards. For such companies, there would be clear savings to balance out the learning costs associated with early adoption.

Other companies would, however, first try to assess the effect of early adoption on investor perceptions. The present study demonstrates that early adoption would signal to many investors that a company is international, flexible and well managed, anticipating a wider trend towards global standards, but would also prompt some to examine the early adopter's motives and carry out further due diligence.

While investors would be willing to incur some learning costs in response to early adoption of IFRS, most of the burden would fall on early adopters themselves. Indeed, it would be necessary for companies contemplating this to communicate with investors as soon as possible after the option is announced and explain the case for early adoption.

THE CHALLENGE OF INVESTOR EDUCATION

It is clear that, if the US were to move to IFRS, a substantial investment in human capital will be required in both industry and the investment community. Investors rank this as the top challenge associated with IFRS, but it is worth the effort. The findings here demonstrate that the more familiar investors become with IFRS the more confidence they will tend to have in the standards, the quality of disclosures resulting from them, and the companies using them.

Awareness of IFRS is not high for the time being, and investors would look to analyst coverage to highlight issues arising from the different accounting treatments under IFRS and US GAAP. This means that any move towards IFRS in the US will rely substantially on investor and analyst education in order to be successful.

A better understanding of global standards does not just produce greater confidence; it will also prompt more investors to learn about the IASB standard-setting process and demand an enhanced role for the US in this. Thus the question of US influence over the development of standards is at the heart of the US decision to move to IFRS.

Preparations are already under way, with industry and the investment community learning at similar paces. The best-informed investors believe, on average, that it will take 4.5 years for US corporates to become ready for IFRS, in line with expectations within industry.

A ROLE FOR THE PROFESSION

If convergence were to become a certainty, US accountants and finance professionals would need to be further engaged. The profession will need to develop a clear framework for accountants and auditors, with particular emphasis on addressing management discretion. Fears of an over-dominant role for auditors in interpreting the standards and 'second guessing' management need to be addressed as they could undermine the commitment to IFRS.

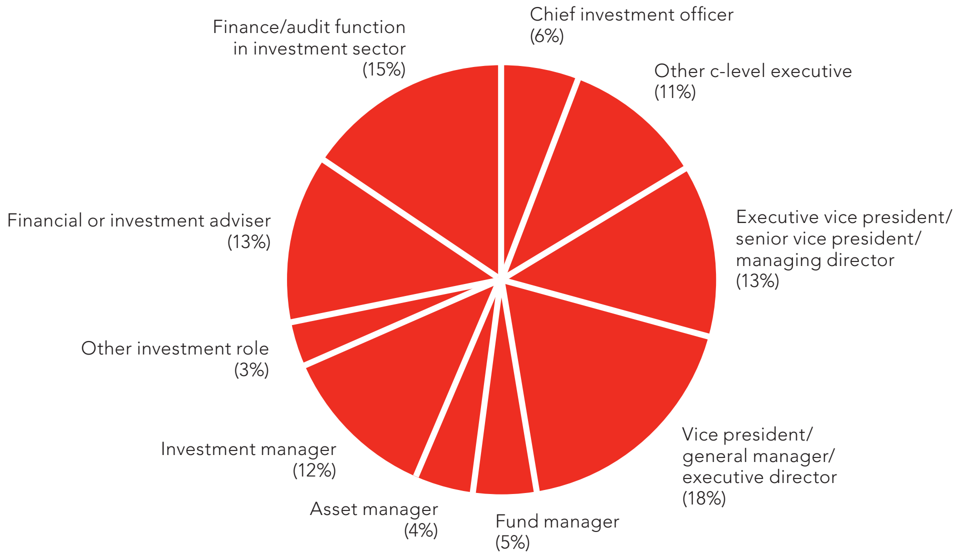
Perhaps more importantly, the accountancy profession is likely to carry much of the weight of educating the wider business community. Professionals will therefore need to be clear on the benefits and challenges of IFRS adoption and be able to both anticipate these and communicate them as they arise.

Appendix: About the research

The survey of investors was carried out by Forbes Insights in two waves – a first wave between 18 and 21 May targeting occupations involved in the management of investments and a 'booster' wave between 25 June and 4 July, targeting professional investment managers, asset managers and fund managers. Both waves drew from the Forbes Insights reader/subscriber base. Overall, the survey achieved 493 responses from individuals with a combined $2.3 trillion under management at the very least.[4]

Figure A1 demonstrates the breakdown by stated occupation, Figure A2 demonstrates the breakdown by broad sector, and Figure A3 demonstrates the breakdown by approximate assets under management (AUM).

Figure A1: Respondents by occupation



4. To ensure a conservative total, this figure was derived by assuming those who did not disclose had no investments, and that each investor had investments equal to the lower end of the AUM size-band they indicated.

Figure A2: Respondents by broad sector

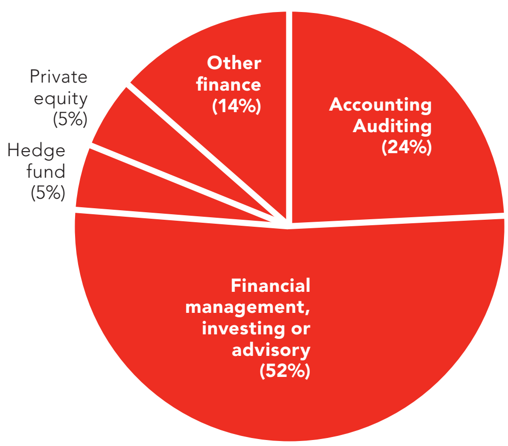


Figure A3: Respondents by approximate AUM (% of those who disclosed)

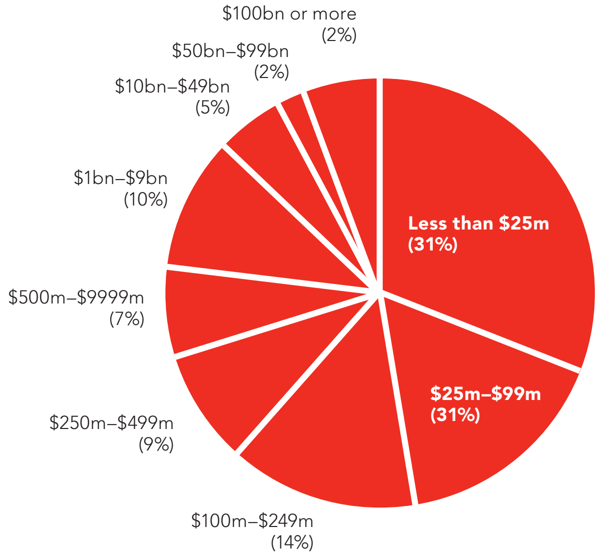
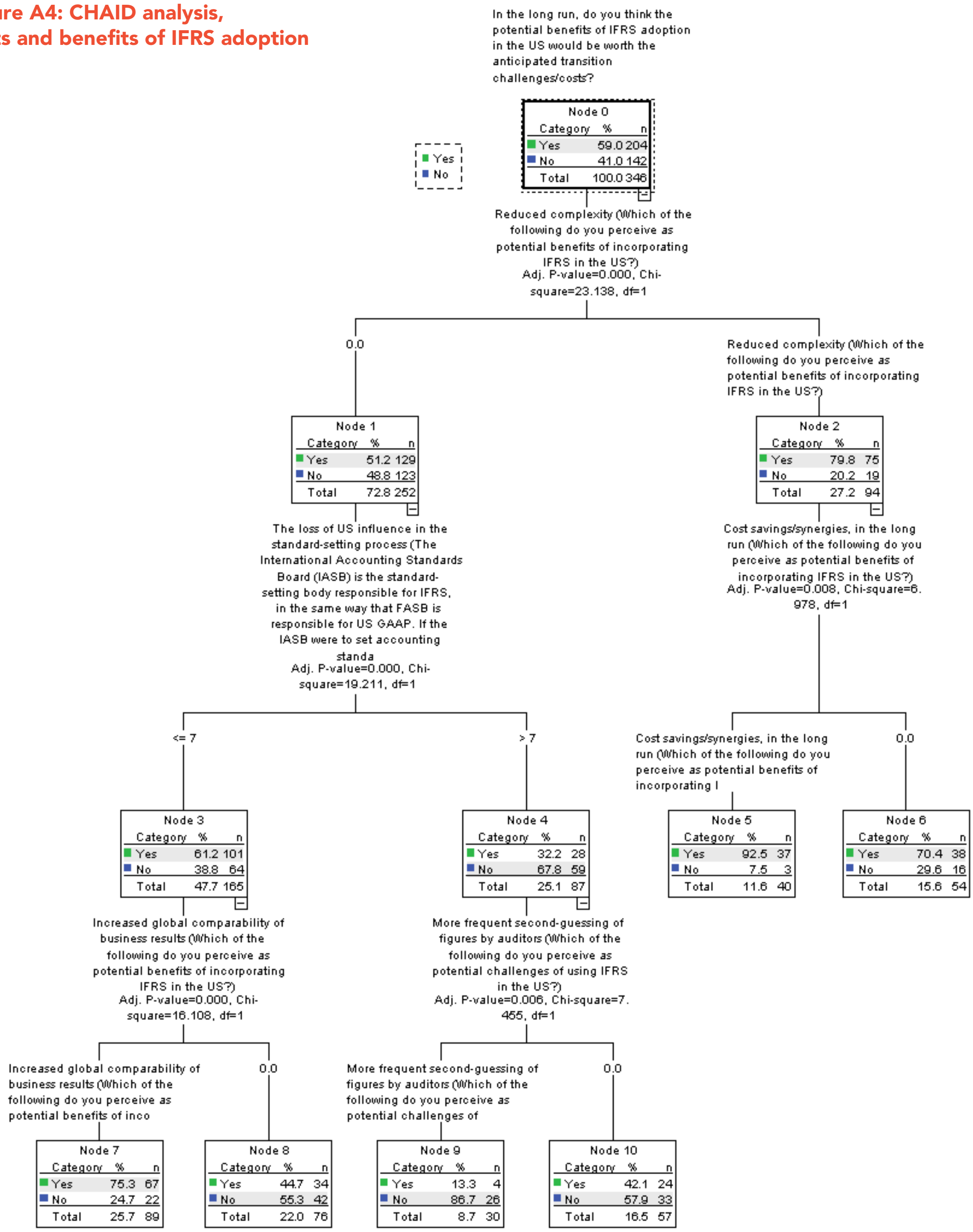


Figure A4: CHAID analysis, costs and benefits of IFRS adoption



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