

COMMENTARY

Academics and the Development of IFRS: An Invitation to Participate

Robert K. Larson, Paul J. Herz, and Sara York Kenny

ABSTRACT: The important role of academic participation and research in the development of accounting standards has long been recognized. Not surprisingly, most U.S. academic participation has been directed at standard setting in the U.S. We suggest that International Financial Reporting Standards (IFRS) development could be enhanced by greater participation from the academic community. The International Accounting Standards Board (IASB) is engaged in an aggressive agenda addressing several critical financial reporting topics, including consolidations, financial instruments, financial statement presentation, insurance, leasing, and revenue recognition. Given the IASB's agenda and the status of the U.S. GAAP/IFRS convergence projects, we believe that "the time is right" for academics, through their research, insights, and perspectives, to make significant contributions to the IASB. We urge academics to participate more actively in the development of IFRS through comment letter writing.

Keywords: standard setting; comment letters; academic participation.

I. INTRODUCTION

“**T**here is demand for more academic research that provides insights into questions of interest to accounting standard setters,” stated Mary Barth (2000, 26), an original member of the International Accounting Standards Board (IASB), as she embarked on her appointment. Seven years later, she continued to recognize the importance of academic participation in the standard-setting process: “Research is particularly valuable to standard setters because it is unbiased, rigorously crafted, and grounded in economic theory, as is the conceptual framework” (Barth 2007, 14).

Currently, independent accounting standard setters and government agencies are involved in their most prolific financial reporting agenda since the era following the 1929 stock market crash. Globalization, not only of businesses themselves, but of the financial markets that supply them

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Expressions of individual views by members of the IASB, the IFRS Interpretations Committee, and IASB staff are encouraged. The views expressed in this commentary are those of the authors. Official positions of the IASB and IFRS Interpretations Committee on accounting matters are determined only after extensive due process and deliberation.

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capital, is pushing the U.S. and the rest of the world toward the formation of a common set of financial accounting and reporting standards, based more on principles than rules.

The IASB is in the midst of an aggressive agenda that will result in revisions of many existing standards and development of new standards, many addressing critical financial reporting topics. Included on the agenda are projects to revise standards related to consolidations, financial instruments, financial statement presentation, insurance, leasing, and revenue recognition, to name but a few. At the same time, the U.S. Securities and Exchange Commission's (SEC's) February 2010 "Work Plan" continues the movement of the U.S. toward greater use of International Financial Reporting Standards (IFRS). While the SEC (2008, 2010) is discussing outright adoption of IFRS for U.S. issuers—as it has already done for foreign issuers—the IASB and U.S. Financial Accounting Standards Board (FASB) are engaged in a large number of joint projects designed to bring U.S. Generally Accepted Accounting Principles (GAAP) and IFRS closer together. Thus, the activity level in the accounting standard-setting realm is very high, and its outcomes will impact preparers, auditors, investors, and educators around the globe.

We believe academics should be actively involved in this process, particularly through participation in the comment letter process. For many years, the important role that academic research can have in the formation of IFRS has been noted. We acknowledge the important contributions academics have made to IFRS via their Board, committee, and staff service. Unfortunately, evidence indicates that academics, including U.S. academics, have written very few comment letters to the IASB. For 55 issues released through the end of 2008, only about a dozen full-time U.S. academics have written comment letters to the IASB, and no U.S. academic has written a comment letter to the IFRS Interpretations Committee (formerly known as IFRIC). Given the value of academic insight to the standard-setting process, we strongly encourage all academics in the American Accounting Association (AAA), and particularly members of the AAA's International Accounting Section, to write thoughtful letters to the IASB discussing the various significant financial reporting topics on its agenda.

This commentary discusses past and current academic participation in the development of IFRS and then, how and why academics should participate in the IFRS due process via comment letters. Next, we examine the IASB's current agenda and highlight several topical areas where academic input and analysis may be particularly salient. We conclude with a call for academic engagement. Academics have a critical, unique role in the standard-setting process with their in-depth understanding of key accounting topics to provide holistic analyses highlighting relevant research and issues to standard setters through comment letter participation.

II. PAST AND CURRENT ACADEMIC ENGAGEMENT WITH THE IASB

While not as extensively as many desire, academics have participated in the development of IFRS. One of their more visible roles in the standard-setting process is that of Board, committee, or advisory service. In these areas, academics have been actively engaged for more than a decade. Current and former academics have served at the Board level (e.g., Mary Barth, Jim Leisenring, Paul Pacter) and on the IFRS Interpretations Committee (e.g., Junichi Akiyama, Japan, 2001–2005; Leo van der Tas, The Netherlands, 2001–2006; Patricia Doran Walters, U.S., 2001–2006; Michael Bradbury, New Zealand, 2003–2008; Sara York Kenny, U.S., 2006–present; and Bernd Hacker, Germany, 2007–present). In addition, academics (former or present) have served on the Advisory Council, Monitoring Board, the Joint International Group for Financial Statement Presentation, and various project committees.

Conversely, academic participation in the IFRS comment letter process is low. For 55 IASB issues released for exposure through 2008, 90 academics and their organizations provided just 153 responses (about three responses per issue) out of a total of 5,702 responses received. For the first

24 IFRS Interpretation Committee issues, just 17 academics and academic organizations provided 20 responses (less than one respondent per issue). Academic participation is even lower considering that three non-U.S. academics and one non-U.S. academic organization provided 42 (24 percent) of the 173 academic responses. Just 14 U.S. academics and academic organizations had a total of 16 responses for 79 IASB and IFRS Interpretation Committee issues. Of the total responses, only three were submitted by AAA committees.¹

While academic engagement through membership on standard-setting bodies is laudable, we believe the topics the IASB is currently addressing are so critically important and notable that a broader range of participation from academics is needed. We believe that standard setting could benefit from the research and insight of the academic perspective, and thus, we urge the larger academic community to actively write comment letters and share research and thoughtful, analytical perspectives on the issues facing the standard setters.

Some U.S. academics might think that writing to the FASB while excluding the IASB is sufficient participation, due to the joint nature of several projects. This view assumes that the convergence of U.S. GAAP and IFRS will be done on a standard-by-standard basis with identical standards as the outcome, which has hardly been the norm to date. Further, the current SEC Work Plan stresses the notion of full adoption of IFRS (SEC 2010). If the SEC decides to converge via full adoption, academic comment letters to the IASB will be even more important, because that SEC action would sidestep the FASB in two ways. First, adoption of IFRS would mean that the current array of IFRS would replace FASB standards for all U.S. companies listed on U.S. capital markets. In terms of the current and recently issued FASB/IASB joint projects, this would mean adoption of the IASB versions. While many are similar to the FASB issuance, some have differences, ranging from subtle to significant. Second, full adoption would include the large number of issues the IASB addressed during its first decade of existence without substantial consultation with the FASB. Thus, U.S. academics cannot assume that responding solely to the FASB means that their FASB input also affects the formation of IFRS. So it is reasonable for academics to study the issues and address their thoughtful comment letters to the IASB as well.

III. HOW AND WHY TO PARTICIPATE IN THE COMMENT LETTER PROCESS

Academic participation in the IFRS comment letter process is not difficult. Accounting standard setting at the IASB follows a similar process to that of the FASB, with numerous opportunities for commentary during the due process. Many projects involve the issuance of a Discussion Paper (DP) early in the process; the purpose of this document is to solicit views about the topic and to understand current industry practice. For a good number of projects identified in this paper, the DPs have already been issued and debated, and so the opportunity for commentary at that juncture no longer exists.

However, many projects are currently at or are approaching the Exposure Draft (ED) stage, and academic input could be very valuable at this time. The purpose of the ED is to let constituents know what the Board's current thinking is on a particular topic and what the Board intends to issue as an accounting standard. The Board typically receives comment letters on EDs from users, preparers, auditors, and professional organizations. Each of these groups provides the Board with input from its particular viewpoint, and of course, that input is valuable. For example, preparers often comment on the cost of implementing the standards, and professional organizations often comment on comparability.

¹ For more details, see [Larson and Herz \(2011\)](#). Numbers do not include academic responses to FASB/IASB projects with joint DPs or EDs.

But input from academics would also be valuable in that it may be uniquely positioned to address the theory and the principles addressed in the ED. Since academics are not directly impacted by the issuance of a new IFRS, they may be more “free” to explore the standard holistically or from several aspects.

Beresford and Johnson (1995, 116), when at the FASB, stated the importance of academic engagement with the accounting standard setter: “[T]he involvement of the academic community is essential if our activities are to be as effective as possible.” The IFRS Foundation, the organization that controls the IASB, desires the involvement of academics in the due process of the IASB and IFRS Interpretations Committee, including participation through comment letters. Lack of participation by academics is detrimental to the legitimacy of accounting standard setting because it allows interest groups that write comment letters to have more influence that sometimes increases the politicization of the due process (Wyatt 1990, 1991). Academics are seen as being in a somewhat unique position: “[B]ecause academics do not have a stake in the outcome of the research, research is typically unbiased” (Barth 2007, 7).

While relevant research is important to standard setters, academic participation should include clear communication of research findings using the comment letter process. This is important because, as Leisenring and Johnson (1994, 75) note, practitioners, including standard setters, by and large “do not and cannot understand much of academic research.” Researchers can help “familiarize” standard setters with research findings (Schipper 1994, 70). Research initially results in studies and articles, but academics must take these a step further and translate them into understandable, useful contributions in comment letters to accounting standard setters.

This input is deemed important because academics present a more conceptually pure and unbiased lobbying position in standard setting, for the outcome does not affect them in the same way as other stakeholders (Barth 2008). Further, since academics often view accounting standards from their theoretical base espoused by a conceptual framework, they are committed to a set of standards that are both consistent with the framework and with each other.

The large variety of issues facing the IASB means that academics with vastly different research interests can make contributions. For example, as the IASB addresses accounting for income taxes, academics specializing in tax can provide valuable insight. Likewise, industry experts, such as those in extractive industries, insurance and leasing, are uniquely positioned to assist the IASB on these projects. In the next section, we review the current agenda at the IASB to present ideas and suggestions regarding topical areas where academic input might be most valuable.

IV. ISSUES NEEDING COMMENTARY: IFRS AGENDAS OF THE IASB AND U.S. SEC

With the 2006 Memorandum of Understanding (MoU) between the FASB and the IASB and its subsequent updates, the agendas of both Boards expanded significantly. While some convergence issues were less complex to address (such as capitalized interest), other issues are significantly more complicated. In addition to the convergence projects, the IASB also has several significant issues on its own active agenda, such as hyperinflation. Further, on some issues, the IASB is taking the lead and the FASB is paying close attention (such as insurance). Current joint projects include consolidations, fair value measurement, financial instruments (including measurement and netting), insurance contracts, leasing, and revenue recognition.²

In response to the concerns raised about the proposed speed of developing new standards and the increased workload, the FASB and IASB decided to limit to four the number of significant or complex EDs issued in any one quarter as a result of their joint projects, and several joint projects

² The current IASB work plan is available at: <http://www.ifrs.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm>.

on significant accounting topics have been delayed until after June 2011. Delayed projects include further work on the conceptual framework, earnings per share, emissions trading schemes, financial statement presentation, income taxes, and postretirement benefit obligations including pensions. These delays actually give academics more time to prepare their thoughts regarding these issues.

Still, this is an ambitious agenda. This heightened activity, indeed the sheer number of accounting standards changes in the works over the next couple years by the IASB, is requiring public accounting firms, corporations, and all stakeholders to become more involved in the process. In summary, the “tidal wave” of activity at the IASB is so significant that the need for academic input is more critical today than ever before.

While several joint projects between the IASB and the FASB resulted in the issuance of identical DPs and EDs, the Boards often issued separate releases for comment, and final standards issued may also differ. For example, the IASB elected to address accounting for financial instruments, derivatives, and hedging in a series of releases under IFRS 9, while the FASB intends to issue one comprehensive standard. Hence, even though a project may be a joint IASB/FASB project, commentary to both Boards may be most appropriate.

We also see continued opportunity for academic input regarding the SEC’s Roadmap itself, and we applaud the efforts of the various groups within the AAA that responded to the 2008 SEC “Roadmap” to convergence with IFRS (see [Bradshaw et al. 2010](#); [Frost et al. 2009](#); [Jamal et al. 2010](#)). We believe more academic comments will be needed as the debate moves forward. For example, in August 2010, the SEC released two Requests for Comment on several topics related to its consideration of adopting IFRS in the U.S. (SEC release 33-9133 and SEC release 33-9134). In summary, there are ample opportunities for academic input in the development of IFRS, particularly at this time.

V. A CALL FOR ACADEMIC ENGAGEMENT

Academics have the potential to be a strong positive influence in the shaping of IFRS. There have been numerous calls for U.S. academics to be more involved in the accounting standard-setting process, especially as researchers of relevant issues and by writing comment letters to the FASB, and, more recently, to the IASB as well as the U.S. SEC in its consideration of IFRS.³ As [Barth \(2000, 26\)](#) stated, “Standard setters face tough, interesting issues and look to academics for help in addressing them.” Or as [Street and Behn \(2004, xv\)](#) wrote regarding an IASB issue, “The academic community should let our voices be heard.”

There is growing understanding that academic research can be relevant to the development and use of IFRS ([Fulbier et al. 2009](#); [Hail et al. 2010](#)). Accounting researchers have the ability to explore incredibly different areas that are relevant to standard setters. Academics can test the economic consequences of new standards or link application to accounting theory and the objectives of financial reporting. Many articles have suggested and summarized numerous research topics that are relevant to IFRS ([Barth 2006, 2008](#); [Fulbier et al. 2009](#); [Hail et al. 2010](#)).

In 2010, Bob Kaplan received a standing ovation for his plenary address at the annual AAA meeting. In his address [Kaplan \(2011, 3\)](#) advocated for academics to “contribute to *advancing* the profession’s body of knowledge, especially when innovation and major changes are occurring in the practice environment of the profession.” We see the recent advances in international standard setting as an example of a major change that offers such an opportunity. While Kaplan commends the discoveries of financial accounting and related research studies, he encourages scholarly activities that close the gap between accounting scholarship and practice, that is, undertaking

³ [Larson and Herz \(2011\)](#) provide an extensive list of prior calls for academics to participate in the accounting standard-setting process.

projects that contribute to the body of knowledge of the accounting and financial professional community. In doing so, Kaplan recommends that academics consider the *comparative advantage* they can offer. In our case, this would be the benefits of more academic involvement in the international standard-setting process by engaging in the comment letter process.

What are the comparative advantages that academics can offer the IASB's standard-setting process? First, across the body of academics, there is a broad knowledge of financial accounting research related to standard setting. Specialists in individual research streams can offer comparative advantages in two ways. With their familiarity, they can sift through the research findings, toss aside what does not apply, and introduce relevant findings into the discussion. Further, when writing comment letters, research specialists who are also teachers can translate findings into everyday language, so analysis and arguments can be easily understood by non-researchers.

Second, by their nature, academics are grounded in theory. Most are quite familiar with the objectives of financial reporting along with the related details of the conceptual framework. As such, their arguments use the framework as a base, a reference point. Moreover, because of the broad nature of their survey-type courses, academics readily see inconsistencies in the current standards and would be proficient in pointing out such pitfalls in proposed standards. Their concern would be more toward conceptual purity and consistency than how a standard affects the bottom line.

Another comparative advantage is the fact that academics are not affected by the standards in the same way as users, preparers, auditors, government agencies, special interest groups, and so on. As a result, their outlook and positions can be counted on to offer an unbiased look at proposals and alternatives.

To further encourage academic participation, there is also the possibility of financial rewards. The International Association for Accounting Education and Research (IAAER), the large public accounting firms, and others are providing more financial support for research that relates to IASB accounting standard-setting issues.⁴ Many of these grants have been substantial.

As Tandy and Wilburn (1996) and others indicate, many universities do not view comment letters as publications. But the good news is that a number of AAA publications, such as *Accounting Horizons* and this journal, will publish well-done comment letters that have been authorized by various organizations within AAA. A large number of colleges and universities value well-done comment letters that are published.

To summarize, the IASB has set an aggressive agenda to revise its standards for many key areas of accounting. Included in their agenda is a large number of joint projects with the FASB, designed to bring U.S. GAAP and IFRS closer together. At the same time, the SEC is considering movement of the U.S. toward greater use of IFRS.

The value of academic participation in the standard-setting process has been acknowledged. While there is significant financial accounting research that relates to issues under IASB consideration, there has been scant academic participation. Academics have the ability to offer comparative advantages by writing comment letters to IASB proposals.

To comply with the views of Kaplan and others, we academics need to take a step further and actually bring our research into the standard-setting conversation, that is, participate by engaging in the comment letter writing process. Academics need to take that next step from researcher to comment letter writer. Those who contribute thoughtful ideas through comment letter participation are truly at the forefront of the creation of standards, not just the teachers of them.

⁴ More information on IAAER grants is available at: <http://www.iaaer.org/research/>.

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