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Political Ideology Shapes Reporting Regulation: SEC Commissioners' Views on IFRS for US Issuers

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ABSTRACT

The Securities and Exchange Commission (SEC) initiated rulemaking steps toward adopting International Financial Reporting Standards (IFRS) for US issuers in 2007, but it never issued a final decision. In this paper, we use public material and interviews to examine the links between commissioners' political ideology and their views on IFRS. We find that differences in political ideologies pervaded the debate on IFRS. In line with their belief in the advantages of "free markets," Republican commissioners supported a move to IFRS, particularly in the form of giving US firms a choice between US GAAP and IFRS. Democratic commissioners were more reluctant to partly or fully replace the well-established system of US GAAP with IFRS, a step that was considered tantamount to deregulation and accompanied by concerns about the International Accounting Standards Board's governance. Our findings highlight the influence of political ideology on the regulatory process related to reporting issues. Thus, bipartisan rulemaking becomes unlikely in times of pronounced political confrontations, as recently evidenced by the SEC's rule on climate-related disclosures.

1 | Introduction

Despite the global spread of International Financial Reporting Standards (IFRS), which are now used in about 160 countries (IFRS Foundation 2023), the US Securities and Exchange Commission (SEC or the Commission) does not permit or require IFRS for US issuers. Starting in 2007, the Commission deliberated over whether and how IFRS might be incorporated into the US financial reporting system. To the disappointment and frustration of many, the SEC never reached a final decision (Herz 2016, 180; IASB Chair Tweedie in Street 2014).

Our paper provides insights into the continuing co-existence of IFRS and the US Generally Accepted Accounting Principles (GAAP) in the United States and other global capital markets by exploring how commissioners from different political parties considered the topic of IFRS for US issuers in the SEC's rule-making process between 2007 and 2012. While some academic studies discuss arguments for and against the incorporation of IFRS from a US perspective (see, e.g., Hail, Leuz, and Wysocki 2010a, 2010b; Kaya and Pillhofer 2013; Street 2012), other studies analyze constituents' feedback on the SEC's IFRS incorporation proposals (Alon and Dwyer 2016) or explore US investors' reactions to the prospect of replacing US GAAP with IFRS (Joos and Leung 2013). Becker et al. (2023) focus on the role of the SEC's chairs and identify the contentiousness at the Commission as one of the main impediments to finding a path toward incorporating IFRS for US issuers.

In this paper, we trace this tension on IFRS to the commissioners' ideology as reflected by their nominating political parties. For this purpose, we draw on public material on the commissioners' views and on interviews with one SEC chair, four commissioners, and nine senior staff members who were involved in the debate on IFRS adoption. The material used for this study also informed the research by Becker et al. (2023). While Becker et al. (2023) focus on the SEC chairs' motivation and ability to advance the introduction of IFRS in the United States, the current paper seeks to shed light on the role of political ideology in commissioners' stances on adopting IFRS for US issuers.

We find that Republican commissioners tended to be more supportive of IFRS adoption than Democratic commissioners. During the SEC's debates on IFRS adoption, Republican commissioners supported opening US markets for the use of IFRS by allowing firms to choose their reporting regime in alignment with investors' demands. This preference is consistent with the Republicans' traditional economic conservative ideology that rejects government intervention based on a belief in the efficiency of free markets (Poole and Rosenthal 2007, 20).[1]

In contrast, Democratic commissioners were skeptical about abandoning the well-established system of US GAAP. This skepticism was partly rooted in the belief that introducing IFRS could equate to a deregulatory action owing to the standards' principles-based nature and to perceived deficiencies in the governance structures of the international standard-setter, the International Accounting Standards Board (IASB). Our results are consistent with prior research showing that Republican commissioners tend to favor reducing regulatory burdens for corporations, while Democratic commissioners emphasize maintaining high levels of investor and consumer protection (Engelberg et al. 2023). Finally, we also illustrate that a general increase in partisanship in the Commission precluded further steps in the SEC's rulemaking process on IFRS, with the Republican commissioners preventing a definitive formal decision to reject the use of IFRS for US issuers.

Our findings contribute to the literature on the political economy of IFRS (see Becker, Bischof, and Daske 2021, 148–179) by illustrating how perceptions of IFRS in the political domain developed along the lines of political ideologies in the United States. As such, our paper provides additional evidence on the influence of political ideology on the development of technical reporting regulations (see also Bischof, Daske, and Sextroh 2020). Our findings also have broader implications for understanding the SEC's rulemaking process. Recent archival evidence presented by Engelberg et al. (2023) suggests that partisan decision-making at the SEC has increased to an unprecedented degree in the past decade. Such partisanship in rulemaking carries the implication that reporting rules may not withstand shifts in political majorities, which fosters continued uncertainty for issuers and users of corporate reporting. The recent case of the partisan rulemaking on climate-related disclosures in terms of stricter regulation versus (continued) nonregulation highlights the ongoing relevance of this finding (SEC 2024a, hour 2:14:00; for examples of Democratic versus Republican views on this rulemaking, see Crenshaw 2022; Peirce 2022). While the SEC adopted the final climate-related disclosure rule with a 3–2 vote under the auspices of its Democratic chair, Gary Gensler (see SEC 2024a, hour 2:14:00), only one month after the release of the final rule, on April 4, 2024, the SEC suspended the rule, pending the outcome of various judicial reviews (SEC 2024b).[2] Furthermore, the SEC's rulemaking on climate-related disclosures became subject to broader debates in Congress about the authority of the SEC, with opinions split along party lines (Johnson 2024).[3] The inauguration of President Trump in January 2025 is expected to result in the appointment of a Republican chair and a subsequent end of climate-related policymaking (see, e.g., Clark 2024).[4]

The remainder of the paper is structured as follows. Section 2 provides background information on the SEC rulemaking process and the case of the deliberations on adopting IFRS. Section 3 describes the method and data used for this study. Section 4 outlines the different Republican and Democratic commissioners' views on the idea of adopting IFRS for US issuers from 2007 to 2012. Section 5 presents our conclusions.

2 | Institutional Background

The Securities Exchange Act of 1934 established the SEC to regulate and enforce US capital markets in the interest of investor protection. The act also invested the SEC with the authority to determine the form and content of registrants' financial statements (see Section 6 of the act). The Commission consists of four commissioners and one chair, nominated by the US president and confirmed by the Senate. The commissioners are appointed to serve staggered 5-year terms. No more than three commissioners can belong to the same political party. Figure 1 provides an overview of the SEC commissioners by party affiliation between 2007 and 2012.

Before the SEC issues a final rule, its rulemaking process requires the solicitation of public comment on a rule proposal (Administrative Procedure Act 1946, para. 553). In some cases, the SEC publishes a concept release early in the deliberations to collect feedback "so that [the Commission] can better evaluate the need for future rulemaking" (SEC 2019). The publication of a concept release, rule proposal, or final rule requires a simple majority vote of the five Commission members.

IFRS was first considered in the SEC rulemaking process for *foreign issuers*. Foreign issuers had been required to file a reconciliation requirement of their local GAAP or IFRS to US GAAP with respect to earnings and shareholders' equity. Against the background of concerns about the attractiveness of US capital markets for foreign issuers and the European Union (EU) planning to introduce a reconciliation requirement for US issuers listed in EU markets, the Commission under Chair Christopher Cox (appointed by Republican President George W. Bush) published a rule proposal in July 2007 on lifting the reconciliation requirement (SEC 2007d). Only four months later, on November 15, the commissioners unanimously agreed on the immediate lifting of the reconciliation requirement for foreign issuers (SEC 2007g). The final rule was released on December 21, 2007 (SEC 2007b).

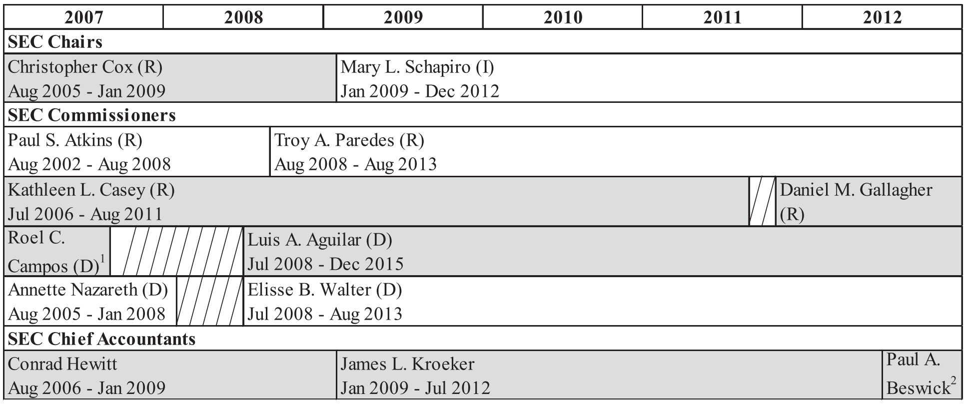

FIGURE 1 | Terms of SEC Commissioners between 2007 and 2012. [1]Roel C. Campos served as commissioner from August 2002 to September 2007. [2]Paul A. Beswick served as chief accountant from July 2012 to September 2014. The parenthetical abbreviations I, D, and R refer to nonpartisan, Democratic, and Republican commissioners or chairs. The gray fields highlight the commissioners and chief accountants interviewed for this study.

The SEC began discussing the topic of allowing or requiring IFRS for US issuers in early 2007. During a public roundtable meeting in March 2007, Chair Cox noted:

> *I've just got one more really hard question ...: Why should a foreign registrant which is identical to a U.S. registrant in every respect but for domicile—including that [it] is listed in the United States, it is offering securities to U.S. investors, it is subject to the same exchange rules, and it is subject to the same statutory requirements under the '33 Act and the '34 Act—why should that foreign issuer have an election to use either GAAP or IFRS, when the U.S. company does not?*
>
> Cox in SEC 2007c

Accordingly, on April 24, 2007, the SEC informed the public that it was beginning work on "a Concept Release relating to issues surrounding the possibility of treating the United States. and foreign issuers similarly ... by also providing US issuers the alternative to use IFRS" (SEC 2007e). During the formal rule-making process on IFRS for US issuers, the commissioners unanimously voted on the release of three publications:

First, the Commission voted for a concept release on June 25, 2007, which proposed allowing US issuers to prepare financial statements in accordance with IFRS (SEC 2007a). This concept release received largely supportive feedback from constituents in comment letters and two public roundtable meetings, with many constituents encouraging the SEC to consider mandatory instead of voluntary adoption of IFRS (Becker et al. 2023).

Second, the Commission approved the release of a rule proposal on August 27, 2008, that included a "roadmap toward global accounting standards" (SEC 2008c). The roadmap suggested that a future SEC decision on mandatory IFRS adoption for US issuers should be based on meeting several milestones, such as the strengthening of the accountability and funding of the IASC Foundation or the successful completion of the FASB/IASB's current convergence projects by 2011 (SEC 2008a, 24–30). Meeting the milestones was intended to enable the Commission to decide by 2011 whether it should require US issuers to use IFRS by 2014 (SEC 2008a, 33).

The rule proposal also asked for constituents' views on the inclusion of a milestone that would allow specific US issuers to use IFRS in their 2010 SEC filings (SEC 2008a, 32). While "Proposal A" involved a "one-time reconciliation" from US GAAP to IFRS at the time of the change in the accounting system (SEC 2008a, 68), "Proposal B" suggested that voluntary adopters should be required to "disclose on an annual basis certain unaudited supplemental U.S. GAAP financial information covering a three-year period" (SEC 2008a, 70).

Although all the commissioners approved the release of the rule proposal on August 27, 2008, the collapse of Lehman Brothers on September 15, 2008, which marked the peak of the Financial Crisis of 2007–2008, delayed the release until November 21, 2008. In addition, various government agencies, including the SEC, experienced a change in leadership when Democrat Barack Obama succeeded Republican George W. Bush as president in January 2009. Under the auspices of the new SEC chair, Mary Schapiro, an Independent nominated by Obama, the SEC collected mixed feedback on the rule proposal up to mid-April 2009. Although most constituents generally supported the idea of global standards, many did not support the proposed mandatory adoption of IFRS (SEC 2010a, 8–11).

The third vote of the Commission approved the release of a "Commission statement in support of convergence and global accounting standards" (SEC 2010a) on February 24, 2010. The statement reaffirmed

> *the Commission's strong commitment to a single set of global standards, the recognition that IFRS is best-positioned to be able to serve the role as that set of standards for the U.S. market, and the convergence process ongoing between the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB").*
>
> SEC 2010a, 2

The statement also outlined "factors that are of particular importance to the Commission as it continues to evaluate IFRS through 2011" (SEC 2010a, 2), such as "[s]ufficient development and application of IFRS for the US domestic reporting system; [t]he independence of standard setting for the benefit of investors; [i]nvestor understanding and education regarding IFRS" (SEC 2010a, 14).

The statement directed the staff of the Office of the Chief Accountant to develop and execute a "work plan" to inform the commission's decision, planned for 2011, on "incorporating" IFRS into the US reporting system by "approximately 2015 or 2016" (SEC 2010a, 15). Thus, the Commission statement did not focus solely on IFRS adoption but encouraged the staff to more broadly consider "the scope, timeframe, and methodology" for incorporating IFRS (SEC 2010a, 13).

Following the Commission statement, the staff conducted two public consultations "on the potential costs of replacing U.S. GAAP with IFRS" in August 2010 (SEC 2010b, 2010c) and then published an overview of the staff's ongoing efforts to execute the work plan in October 2010 (SEC 2010e). In a speech on December 6, 2010, Deputy Chief Accountant Paul Beswick proposed using a "condorsement" approach that would combine the convergence of existing US-GAAP standards with IFRS and the endorsement of future IFRS by the FASB. On May 26, 2011, the SEC staff invited comments on the condorsement approach (SEC 2011a). In November 2011, the SEC staff released two further reports related to the execution of the work plan, comparing US GAAP and IFRS (SEC 2011b) and analyzing the use of IFRS by issuers listed within and outside the United States (SEC 2011c).

On July 13, 2012, the Commission issued the final staff report (SEC 2012b). The report did not include any recommendations to the commission but instead highlighted a lack of constituent support for the mandatory adoption of IFRS. The report did not mention the voluntary adoption of IFRS as a way forward but noted "substantial support for exploring other methods of incorporating IFRS" (SEC 2012b, 4). Although the SEC explored further possibilities to incorporate IFRS for US issuers in subsequent years (Becker et al. 2023), the rulemaking process was not revisited.

3 | Method and Data

To inform our analysis, we collected documents from the SEC website, such as commissioners' public statements on the topic of IFRS adoption for US issuers, transcripts of public SEC meetings, and policy documents. When referring to publicly available recordings without a transcript, we specify the timepoint of statements by using the format "hour h:min:sec." To find background information about commissioners, we used internet documents and newspaper articles on Factiva.

We also conducted semi-structured interviews with four commissioners, one chair, and nine senior staff members of the SEC (see Table 1). We first identified commissioners and senior SEC staff members as potential interviewees. Apart from interviews with staff members of the SEC's Office of the Chief Accountant, we aimed for interviews with members from other SEC offices and divisions that were closely involved in the development of the proposals, such as Ethiopis Tafara, the director of the Office of International Affairs (2003–2013), and Wayne Carnall, the chief accountant at the Division of Corporation Finance (2007–2011). We approached them by using publicly available contact information or interviewees' willingness to share contact details of other interview candidates. A limitation of our study is that two commissioners (Troy Paredes and Elisse Walter) and a chair (Mary Schapiro) did not agree to be interviewed. In these cases, we relied on their public statements on IFRS to gain insights into their contemporary thinking. However, as one Republican chair as well as two Republican and two Democratic commissioners agreed to be interviewed, our analysis of the events between 2007 and 2012 is informed by the recollections of at least one Republican and one Democratic commissioner who served at the same time during the respective subperiod (see Figure 1).[5] To remedy the lack of personal insights from Chair Schapiro, we interviewed Kayla Gillan, a senior advisor of Schapiro and deputy chief of staff (2009–2011).

All interviews were conducted between May and September 2019. All but one of the interviews were conducted by at least two of the authors. Six interviews were conducted in person, and the remaining interviews were by telephone. Except for one interviewee, who only approved notetaking, all interviewees approved the recording of the conversation. The unrecorded interview was conducted by three authors who compared their notes immediately after the interview. All recordings were fully transcribed and built the foundation for joint discussions within the author team to identify the motivation of different members of the Commission to support or reject specific ideas on how to introduce IFRS for US issuers.

To reduce the risk of our analysis being impaired by interviewees' (hindsight) bias, we triangulated the insights that we obtained from each interviewee with publicly available material and the insights from other interviewees. Apart from requesting and receiving written approval for the use of direct quotes, we also asked our interviewees for approval of indirect quotes to ensure that our interpretations of interview statements were accurate.

4 | Analysis

This section outlines and compares the commissioners' positions toward making IFRS applicable for US issuers. In 2007, SEC Chair Cox (Republican), who was described as a "true internationalist" (interviews with Tafara and Casey), added the topic of IFRS adoption for US issuers to the SEC's agenda (Becker et al. 2023, 6–7). In many of his speeches, Cox urged a potential move to IFRS by highlighting efficiency benefits for investors and issuers from using one set of global standards (see, e.g., Cox 2008a, 2008b, 2008c). While Cox ultimately aimed for the mandatory use of IFRS, he intended to give US issuers the option of using IFRS as an interim solution (interview with Cox).

Cox could rely on the active support of his fellow Republican commissioners, Paul Atkins and Kathleen Casey, for a timely development of a concept release. For example, at an open SEC meeting in June 2007, Atkins, a "libertarian and free-market

TABLE 1 | List of interviewees.

No.	Name	Position	Time served in the position	Interview (min)
1	Aguilar, Luis A.	Commissioner	2008–2015	115
2	Beswick, Paul A.	Chief Accountant	2012–2014	75
		Deputy Chief Accountant	2008–2012	
		Senior advisor at Office of the Chief Accountant	2007–2008	
3	Campos, Roel C.	Commissioner	2002–2007	70
4	Carnall, Wayne	Chief Accountant at Division of Corporation Finance (DCF)	2007–2011	115
5	Casey, Kathleen L.	Commissioner	2006–2011	90
6	Cox, Christopher	Chair	2005–2009	70
7	Gallagher, Daniel M.	Commissioner	2011–2015	60
		Senior staff at the Division of Trading and Markets	2008–2010	
		Counsel to Commissioner Atkins	2006–2008	
8	Gillan, Kayla J.	Deputy Chief of Staff	2009–2011	60
9	Hewitt, Conrad W.	Chief Accountant	2006–2009	50
10	Kroeker, James L.	Chief Accountant	2009–2012	120
		Deputy Chief Accountant	2007–2009	
11	Tafara, Ethiopis	Director of Office of International Affairs (OIA)	2003–2013	95
		Assistant Director of OIA	1999–2003	
12	Taub, Scott A.	Acting Chief Accountant	2003; 2005–2006	100
		Deputy Chief Accountant	2002–2007	
13	Anonymous	Senior Officer at DCF	1990–2016	80
14	Anonymous	Senior Advisor	2005–2011	90

thinker" (Scannell 2016), pushed the SEC staff to quickly finish drafting the concept release (SEC 2007f, hour 1:25:45).[6] The proposal of an option for US issuers also aligned with the Republican commissioners' ideological view of the benefits of "let[ting] market forces work" (Casey in Committee on Banking, Housing, and Urban Affairs 2006).

Although the two Democratic commissioners, Roel Campos and Annette Nazareth, also voted in favor of issuing the concept release, they were more skeptical and stressed the need to gather more information about the potential consequences of such a regulatory change:

> *I don't want to minimize the fact that allowing domestic U.S. issuers to use IFRS would be a very significant policy decision. There are many theoretical and practical issues that must be addressed before we actually take such a step. It does, however, seem appropriate to at least present the issue for public comment in such a Concept Release.*
>
> Campos in SEC 2007h

> *While I think that the idea of allowing U.S. issuers to file using IFRS is appealing and may be appropriate at some point in the future, we must carefully think through all of the implementation issues and all the implications before making a proposal in this area. In particular, we might want to wait until we have gained greater experience with foreign issuers using IFRS before proposing it as an option for U.S. issuers.*
>
> Nazareth in SEC 2007h

With the departure of Campos in September 2007 and Nazareth in January 2008, only the three Republican commissioners remained. Even though Democrats Luis Aguilar and Elisse Walter were publicly reported to be candidates for Commission seats in November 2007 (Johnson 2007), the appointment process was stalled for six months (Burns 2008). This delay made it impossible to advance and legitimize any major regulatory reforms, including the rulemaking process on IFRS, with bipartisan support for the greater part of 2008 (Wallison 2007). Ultimately, Aguilar and Walter joined as commissioners in July, while Republican Troy Paredes succeeded Atkins in early August (see Figure 1).

The three newly appointed commissioners had already become acquainted with the topic of IFRS for US issuers in their preparation briefings for the confirmation process (interview with Aguilar) as well as in their confirmation hearings (Committee on Banking, Housing, and Urban Affairs 2008). Less than a month after the Commission had regained its full strength, on August 27, 2008, Cox called on commissioners to vote on the release of a rule proposal in the form of a "roadmap toward global accounting standards" (SEC 2008c).

Although the Commission unanimously approved the release, policy preferences still differed across party lines. While the Republican commissioners around Chair Cox strongly supported the inclusion of a milestone that would allow specific US issuers to use IFRS as early as their 2010 SEC filings (Proposal A), Democratic commissioners Aguilar and Walter preferred an alternative proposal for the early adoption of IFRS (Proposal B; interview with Carnall; see also Aguilar in SEC 2008b, hour 2:52:20). Proposal B called for a continuing reconciliation by IFRS adopters to US GAAP and would have created significant disincentives for US issuers to voluntarily switch to IFRS.

> *Most important, we have to keep in mind that no one knows for certain what the future will hold. I strongly believe that we have to prepare for the alternative that the Commission will determine not to adopt or permit the use of IFRS for U.S. issuers .... It is also critical to me because it gives early adopters of IFRS a way back to U.S. GAAP if the Commission determines not to adopt the use of IFRS in 2011.*
>
> Walter in SEC 2008b, hour 2:37:33

The Commission's disagreement over the early adoption option resulted in the unusual vote on an *unfinished* rule proposal because "at the time of the public meeting, there were still modifications being made to the release of the proposal to allow certain domestic companies to report using IFRS" (interview with Carnall). According to reflections by Commissioner Aguilar,

> *Usually, the document you vote on is, to a significant extent, done on the day you vote on it, even when alternative options are being presented. This one had more looseness to it and I must say I didn't fully appreciate that fact so early in my tenure.*
>
> Interview with Aguilar

Although the Democratic commissioners did not appreciate the rushed decision-making process, they had fewer reasons to reject a rule proposal, which was not a commitment to any final decisions (interview with Aguilar). In this regard, Walter's and Aguilar's voting decision and their insistence on including Proposal B in the roadmap to prevent an irreversible voluntary adoption of IFRS by some US issuers resembled their Democratic predecessors' pragmatic support for the concept release back in 2007. In both cases, the Democratic commissioners agreed on taking steps toward the potential adoption of IFRS, but they rejected any step that would lead to the irreversible introduction of IFRS for (some) US issuers.

Despite the commissioners' approval for the release of the rule proposal on August 27, 2008, the crash of Lehman Brothers in mid-September 2008 shifted the SEC's focus to more pressing issues (interview with Aguilar). As a result, the SEC staff "essentially put the proposal into the drawer," waiting for a more appropriate time for its inevitable release (interview with Beswick). The proposal was eventually released and published in the Federal Register in November 2008 (SEC 2008d), with the comment period ending on February 19, 2009, after Chair Cox's term had ended.[7]

Cox (a Republican) stepped down as the SEC's chair in January 2009, and he was succeeded by Mary Schapiro (an Independent). Despite Chair Cox's departure from the SEC, the release of the rule proposal gave him "a little bit of dead-hand control" over the SEC's future agenda because the SEC had made certain commitments for the further consideration of IFRS for US issuers (interviews with Kroeker and Gallagher). However, in light of the still-unfolding market turmoil when she was taking her position as SEC chair, Schapiro focused on issues that were more pressing than the rule proposal on adopting IFRS. Such issues included reacting to accusations stemming from the Financial Crisis that "the SEC could not regulate itself out of a paper bag" (interview with Aguilar). Apart from taking care of "one emergency after another after another" (Walter in Thomas 2014, 61), the Commission needed to explain its failure to detect critical problems such as Bernard Madoff's Ponzi scheme (SEC 2009b) and Lehman Brothers' financial distress (see, e.g., Schapiro 2010). During her first year in office, Schapiro was called to testify at Congressional hearings eight times (SEC 2009a), which undermined her personal capacity to be closely involved in the deliberative and rulemaking processes within the Commission (interview with Gillan). Given the situation, advancing a rule proposal aimed at imposing a major financial reporting change upon already distressed companies was generally inconceivable.

Therefore, it was not until February 24, 2010, that Schapiro finally sent a signal to constituents on the Commission's position toward the issue of IFRS.[8] Yet, instead of issuing a final rule on the roadmap, Schapiro summoned the commissioners to vote on releasing a "statement in support of convergence and global accounting standards" (SEC 2010a). The statement also directed the staff to develop and execute a "work plan" for the Commission on how IFRS could be "incorporated" into the US reporting system (SEC 2010a, 15).

The Commission's statement made clear that the SEC would not, at that time, pursue any rulemaking to provide for an early-use option, which had been a crucial element in the rule proposal (SEC 2010a, 23). This development was strongly supported by Democratic Commissioner Walter, who wanted to avoid any irreversible steps toward IFRS, but it was deplored by Republican Commissioner Casey, who had favored the voluntary adoption of IFRS since 2007 (SEC 2007h, 117):

> *Let me start with what [the work plan] is not: It is not, to me, a work plan toward early adoption of IFRS for U.S. public companies. I have been quite concerned that we might be heading toward a reporting system with dual GAAP for U.S. public companies, and I am greatly relieved to say that I will now, at least for the time being,*

be crossing that off my list of things that keep me awake at night.

Walter in SEC 2010d, hour 1:45:15

Notably, although the Commission is not, at this time, pursuing optional or early adoption of IFRS for U.S. issuers, the statement clearly signals that an optional or early adoption remains viable as a potential element of the transition to the use of IFRS by U.S. issuers.

Casey in SEC 2010d, hour 1:39:46

The decision to "withdraw … the proposed rules for limited early use of IFRS by certain U.S. issuers" (SEC 2010a, 24) and the search for alternatives to adopting IFRS also aligned with the general political sentiment against any kind of potentially deregulatory rulemakings for securities markets in the aftermath of the Financial Crisis. Instead, the federal government under the Obama administration aimed for stricter regulations (see, e.g., Obama White House 2008) that eventually materialized in the July 2010 passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").

Given Schapiro's former position as a securities market regulator (SEC 2012a), her appointment as SEC chair matched political expectations at the time. Schapiro had already outlined her reservations about the idea of adopting IFRS for US issuers in her Senate confirmation hearing in response to a question by Senator Jack Reed, a Democrat and well-known IFRS skeptic (Reed and Dodd 2007). Her concerns included the costs of switching to IFRS, the independence of the IASB, and inconsistencies in the application of IFRS across, and even within, jurisdictions, given that IFRS were "not as detailed as the U.S. standards … and left a lot to interpretation" (Schapiro in US Congress 2009, 21). Schapiro's reservations were echoed in statements by Democratic Commissioner Aguilar, who believed that US GAAP was "respected and trusted in markets throughout the world" and therefore cautioned against prematurely replacing US GAAP with IFRS (Aguilar 2010), especially since he associated the greater discretion under IFRS with deregulation:

IFRS … can provide financial statement preparers with more discretion than U.S. GAAP. As we all know, discretion can sometimes enable poor to fraudulent reporting. In addition, it can then be difficult for a regulator to demonstrate wrongdoing.

Aguilar 2010

Democratic Commissioner Walter had two prerequisites for the further consideration of incorporating IFRS. First, she reiterated her opinion from 2008 whereby the IASB's independence remained a "critical component" (Walter in SEC 2008b, hour 58:30) that "must be achieved before we [the SEC] move forward" (Walter in SEC 2010d, hour 1:45:40).[9] Second, in discussions with the staff, Walter also made it clear that eliminating differences between US GAAP and IFRS was necessary for her to support the use of IFRS by US issuers (interview with Kroeker). In the Commission's statement in February 2010, the convergence of IFRS and US GAAP was highlighted as a crucial element of the SEC's work plan to enable a decision in favor of IFRS in 2011.[10] Along this line, Paul Beswick, an SEC staff member, proposed a "condorsement" approach (SEC 2011a). For standards beyond the ongoing FASB/IASB convergence projects, the condorsement approach envisioned that "the FASB would work to converge existing U.S. GAAP to IFRS" (Beswick 2010). Newly issued IFRSs would be subject to the FASB's endorsement decision.

The condorsement proposal came close to Commissioner Walter's preferred solution to "force the FASB and IASB to come together and then, when IFRS and U.S. GAAP were close enough, make a decision" (interview with Kroeker) and to ensure an ongoing prominent role of the FASB. This preference can be traced to her beliefs about the need to balance national regulation and international cooperation:

Despite its global nature, the financial system is still regulated, rightly, in my view, by national regulators. National regulation is appropriate because different countries are at different levels of development with respect to their financial systems and capital markets. … The global nature of capital markets [however] … presents dilemmas for national regulators. … At the same time, as we experienced in 2008, financial crises have a stubborn tendency to ignore national borders.… For all of these reasons, international coordination among regulators is increasingly important, and indeed vital. … we must work together to foster an international regulatory architecture that encourages global growth and innovation while mitigating risk and maintaining the integrity of the financial markets.

Walter 2012

In contrast to Walter, other commissioners were either marginally interested in the proposal or skeptical about the extent to which the suggestion would ultimately provide a solution:

I wouldn't say the condorsement proposal was a big topic among Commissioners. It was discussed mostly as: "Gee, did he trademark the name condorsement? Should the SEC trademark the name? Are you joking?" But I think that the general feeling was: sure, why not, because far down the road, it's not likely to really affect the ultimate decisions that are made.

Interview with Aguilar

I remember spending time talking to Paul [Beswick] about it, being a little skeptical despite the fact that I was very grateful for his effort. I had always largely been sympathetic to the adoption, to the optionality approach, because I felt that, in many ways, it solves some of the problems that we had and the concerns that had been raised.

Interview with Casey

A few weeks before leaving the SEC in August 2011, Casey, who had long pushed internally for a timely decision on IFRS (interviews with Kroeker and Tafara) and called herself "a spiritual advocate in the adoption of IFRS" (interview with Casey), publicly stated her expectation of the upcoming SEC decision:

> *The Commission is slated to make a decision on … [IFRS] this year, and we can no longer kick the can down the road. I believe the choice is clear—the Commission must decide to incorporate IFRS for U.S. issuers. In addition to the benefits of IFRS that I have already mentioned, the risks of not moving forward with IFRS for U.S. issuers are simply too great.*
>
> Casey 2011

However, 2011 ended without any decision by the Commission, which was mainly occupied with the development of rules to implement the Dodd-Frank Act. The Dodd-Frank Act had not passed the House and Senate with a bipartisan supermajority, but only with the votes of Democrats (U.S. Congress 2010), and it left the Commission with a lot of discretion in rulemaking (interview with Casey). According to Republican Commissioner Daniel Gallagher, who succeeded Casey in November 2011, the SEC's immense time and effort devoted to issuing regulations under Dodd-Frank

> *caused the Commission to become incredibly political, as it brought out the ideological differences among the Commissioners. We were fighting not personally, but on a policy level very publicly about major issues. I mean, it was basically a public fight every day.*
>
> Interview with Gallagher; confirmed in interviews with Casey and Kroeker

The Commission's contentiousness during the Dodd-Frank period crucially pervaded the context of the SEC's deliberations on IFRS. Even though the staff had already completed its final report on the IFRS work plan several months before its publication in July 2012 (interview with Kroeker), the commissioners could not agree on what conclusions to draw from the staff's analysis, which did not include any policy recommendations to the Commission. The commissioners' disagreement made it difficult for Schapiro to call them together for a vote (interviews with Aguilar and Kroeker). While Schapiro and Walter showed some support for an endorsement approach with a prominent role by the FASB,[11] they objected to the voluntary use of IFRS, which was favored by Republican Commissioners Gallagher and Paredes:

> *I was one of the Commissioners that favored an option, because what harm is an option? Troy Paredes was on the Commission with me. I recall the two of us thinking, "Then why not have an option?"*
>
> Interview with Gallagher

Gallagher assessed the condorsement approach as "an effort by the accountants to not make progress. I think it was what we'd call a deflection move" (interview with Gallagher). Democratic Commissioner Aguilar, who was a swing vote on bipartisan controversies at the time (Popper 2012), did not see an urgent need to act on IFRS for US issuers:

> *The list is long of things that needed immediate attention to address the issues revealed by the 2008 market crisis and comfort investors and the markets. And IFRS and GAAP were just not on that list. Especially when you've got GAAP and FASB that everybody viewed—with all due respect to the rest of the world—as the jewel of standards because they were high quality, because there was accountability, because FASB was clearly viewed as independent. We arrogantly think ours is the best way. FASB and GAAP, whatever imperfections they've got, were under the oversight of the SEC and the SEC staff. While it was important to protect their independence, if need be, we could intervene and attempt to control them. With IFRS, the U.S. may be unable to have any meaningful impact.*
>
> Interview with Aguilar

With the "world await[ing] the SEC's decision" (Street 2012, 271), the staff report was released on July 13, 2012 (SEC 2012b), and opened with an "Introductory Note" that clarified that "the Staff Report at this time does not imply—and should not be construed to imply—that the Commission has made any policy decision" on IFRS (SEC 2012b). Republican Commissioners Gallagher and Paredes had pushed for this last-minute change in the final report (interviews with Gallagher and Kroeker) to enable a future Commission to find a solution that all commissioners could support and to retain the future possibility of their favored approach of voluntary adoption of IFRS (interview with Gallagher). However, observers regarded the introductory note both as a placeholder for the Commission's inability to find a solution and as a stalling mechanism that allowed Schapiro to leave office at the end of 2012 without making a decision on IFRS for US issuers (Sawers 2012).

5 | Conclusion

In this paper, we trace the SEC commissioners' views on IFRS adoption for US issuers between 2007 and 2012. Our analysis points to differences in the opinions of commissioners in line with their political party. On the one hand, Republican commissioners tended to be favorably inclined towards IFRS and, in particular, were consistently supportive of offering an IFRS option to US issuers. On the other hand, Democratic commissioners rejected this idea, as they were skeptical about the coexistence of two GAAPs for US issuers. They were also skeptical about the irreversible nature of a move to IFRS when providing an option. Consequently, they wanted to ensure that the established regulatory structures of US GAAP and FASB were not hastily abandoned, as they were particularly concerned about discretion in IFRS and the governance of the IASB. Thus, they tended to prefer a powerful, enduring role of the FASB through the endorsement of IFRS.

Ideological differences in the Commission became more pronounced during the implementation of the Dodd-Frank Act. With the two Republican commissioners favoring an option, one Democratic commissioner and the chair leaning towards an endorsement approach, and the swing vote supporting the maintenance of US GAAP, the SEC was unable to reach a formal decision on IFRS.[12]

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Ethics Statement

The authors received their institutions' ethics approval for conducting this research.

Conflicts of Interest

The authors declare no conflicts of interest.

Data Availability Statement

Data are either available from the public sources cited in the text or were obtained in confidential interviews and approved for use in this paper by the interviewees.

Endnotes

[1] Since the election of Republican candidate Donald Trump as president in 2016, the Republican Party has moved away from economic conservatism and toward economic nationalism (Donnelly 2024).

[2] The Climate Change Litigation Database (2024) offers detailed information about the current status of the court case, including the various petitions that led to the court case.

[3] Congress can, with democratic legitimacy, issue legislation that overrides SEC decisions. At the time of the SEC's deliberations on IFRS, several articles in the law literature questioned the SEC's legal authority to delegate authority to an international regulatory body and argued that such authority would only rest with Congress (see e.g., Barney 2009; Cunningham 2008). The presence or absence of the SEC's legal authority is also an issue in the court cases against the SEC's climate-related disclosure rule (Climate Change Litigation Database 2024).

[4] President-elect Trump's nomination of Paul Atkins to chair the SEC (Clark 2024) may even revive the debate on financial reporting standards, as he strongly advocated lifting the reconciliation requirement for foreign issuers and giving US issuers the same choice of using either US GAAP or IFRS in 2007.

[5] The only exception is the period from August 2011 to November 2011, for which we only have Luis Aguilar as a contemporary witness at the commissioner level.

[6] This push is illustrated by the following exchange between Commissioner Atkins and SEC staff member Julie Erhardt during the SEC's open meeting in June 2007 (SEC 2007f, hour 1:25:45):

"Atkins: I was wondering when we could anticipate a concept release on the topic of enabling US issuers to file their financial statements in accordance with IFRS rather than U.S. GAAP?

Erhardt: This summer. We are working, as soon as we are finished here [with the final rule on lifting the reconciliation requirement]. We work even more expeditiously than we have on finishing that and I will be coming back to you.

Atkins: I will give you a pencil sharpener for that."

[7] The comment period was later postponed to April 20, 2009, due to a 60-day extension granted by the SEC in early February 2009 (SEC 2009c).

[8] According to former SEC Chair Cox, this date arguably marked "the first day when the SEC could come out of its bunker, stop dealing with the bombs that were falling from the global financial crisis, and deal with something else" (interview with Cox; see also Minke-Girard in FASAC 2009). It also reflected the point in time when the SEC had to react to the international and US financial reporting community's increasing unease about the uncertainty over whether, or when, IFRS would be adopted (Taub 2010; Tweedie in Accounting Today 2009; FCAG 2010).

[9] In contrast, Republican Commissioner Kathleen Casey had already seen "a lot of progress" concerning the governance and funding of the IASB in August 2008 (Casey in SEC 2008b, hour 51:00).

[10] The SEC's calls for the acceleration of convergence efforts came at a time when difficulties began to emerge in the standard setters' convergence projects (Camfferman and Zeff 2015, 547–557). Baudot (2014) provides a comprehensive overview of the two boards' work on 13 major and 10 minor projects to converge US GAAP with IFRS. Despite the SEC's emphasis on the importance of completing the convergence program, the two boards needed to announce the further extension of the target completion dates for a few projects in June 2010 (FASB and IASB 2010). However, only 2 months later, on August 24, 2010, the Financial Accounting Foundation (FAF) surprised the accounting community by announcing the sudden retirement of FASB Chair Robert Herz (FAF 2010) whose term of office would have lasted until July 2012. In light of the boards' ambitious convergence program, observers compared the timing of Herz's resignation with "Eisenhower resigning as the troops were landing on the beach on D-Day" (CFO.com 2010). Ultimately, most of the convergence projects remained incomplete (see Baudot 2014).

[11] In February 2012, Chief Accountant Kroeker revealed that the SEC had replaced the term "condorsement" with "endorsement," which led observers to conclude that an endorsement approach was going to be the SEC staff's most likely recommendation to the Commission (Bruce 2012).

[12] The SEC chairs attributed different importance to the topic of IFRS, faced different contexts, and also had different strategies when running the Commission. See Becker et al. (2023) for a detailed analysis of the role of the chairs.

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