国際研究論叢　27（2）：1～19，2014

The Choice of Accounting Bases of FPIs Listed in NYSE
— IFRS or U.S. GAAP —

Norio Yamamoto*

Abstract

This paper is concerned with the question of why and how FPIs decide to switch to IFRS or continue to use U.S.GAAP under national regulations. I investigated the number of accounting bases of FPIs listing in NYSE as of 31 December 2012. In this research, I find that the number of FPIs which have moved to adopt IFRS during the period 2010-2012 is increasing. This fact is consistent with the increase in the number of mandatory IFRS regulations. The results suggest that mandatory rather than optional IFRS regulations encouraged FPIs to adopt IFRS. I find also that FPIs choose U.S.GAAP in spite of double standards. This result suggests that some FPIs choose accounting bases after considering the expected costs and benefits. Accordingly, whether FPIs choose IFRS or U.S.GAAP depends on both cost-benefit assessments and their countries' regulatory strategies.

Key words

FPI, Transition to IFRS, U.S.GAAP, Expected Costs, Expected Benefits

Introduction

Decision on whether U.S. regulator adopts International Financial Reporting Standards (IFRS) is a key toward a globalization of IFRS. In July 2002, the European Commission (EC) adopted the EC regulation to require the use of IFRS by public traded companies in European Union member states beginning with the 2005 financial year.[1] On 21 December 2007, the Securities Exchange Commission (SEC) decided to remove the reconciliation requirement that foreign private issuers (FPIs)[2] adopted IFRS shall reconcile IFRS with United States Generally Accepted Accounting Principles (U.S.GAAP).[3] Thus, many FPIs have switched to IFRS.

Studies on the choice of accounting bases have concentrated on two issues, that is, (1) determinants of choice of accounting bases and (2) economic effects of choice of accounting basis. Earlier studies examined determinants of the choice of IFRS.[4] But since

＊やまもと　のりお：大阪国際大学ビジネス学部教授〈2013.9.23受理〉

2005 the studies have analyzed economic effects of the transition to IFRS.[5] My paper concentrates on the first issue.[6] I concern with the question of why and how FPIs decide to switch to IFRS or continue to use U.S.GAAP under country's regulation.

Thus, my paper is organized as follows. The first section provides the investigation of the choice of the accounting bases adopted by FPIs listing in NYSE. The second section describes regulatory environments of FPIs, and classifies the regulations into 5 types. The third section investigates the reasons, why some FPIs continue to use U.S. GAAP. Finally, the fourth section presents an insight into the future direction.

Ⅰ. Choice of FPI

1.1. Research Method

In my prior paper, I investigated the number of accounting basis of FPIs listing in NYSE as of 31 December 2010[7]. This paper extends the research period into 2012. To collect data on accounting bases adopted by FPIs, I refer to the SEC's EDGAR system as the data source.[8] FPI has been allowed to use Form 20F filed to the SEC.[9] Our samples consist of FPIs listing in NYSE, because NYSE is the largest in U.S. market and many large FPIs are listed in the Exchange, so the samples reflect the trends of choices of accounting bases adopted by FPIs.[10]

As for accounting bases allowed to use on Form 20F, there are three sorts of accounting bases, i.e. U.S.GAAP, IFRS and Other. Other is non U.S. local GAAP, for example, Japan GAAP, German GAAP or other GAAP. In judging which accounting basis FPI adopted, I make use of the basis disclosed on the front page of annual report on Form 20F.

1.2. Results

The second column of Table1 presents the number of foreign companies listing in NYSE as of 31 December 2012.[11] During July in 2013, I researched the number of accounting bases adopted by FPI in annual reports on Form 20F. In addition, number of other Form (i.e. Form 10K or Form40F)[12] adopted by other foreign companies is presented in the sixth column. Number in parentheses represents the data of year 2010.

Table1：Accounting Bases of FPIs listing in NYSE in 2012

	Number	the Number of Accounting Bases (Form 20F)			Number
COUNTRY	(Foreign companies)	U.S. GAAP	IFRS	Other	(Other Form)
Argentina	10(10)	0(0)	6(2)	4(8)	
Australia	4(4)	0(0)	4(4)	0(0)	
Belgium	2(2)	0(0)	2(2)	0(0)	
Bermuda	16(15)	8(8)	5(4)	0(0)	3(3)*

Brazil	25(27)	1(4)	24(20)	0(3)	
British Virgin Islands	7(4)	5(4)	2(0)	0(0)	
Canada	87(74)	1(1)	2(1)	0(1)	84[2](71)**
Cayman Islands	54(51)	49(48)	5(3)	0(0)	
Chile	12(11)	0(0)	12(11)	0(0)	
China	11(11)	0(0)	11(11)	0(0)	
Colombia	2(2)	0(0)	2(2)	0(0)	
Denmark	1(1)	0(0)	1(1)	0(0)	
Finland	1(1)	0(0)	1(1)	0(0)	
France	7(7)	0(0)	7(7)	0(0)	
Germany	4(5)	1(2)	3(3)	0(0)	
Greece	2(2)	1(1)	1(1)	0(0)	
Guernsey	1(0)	1(0)	0(0)	0(0)	
Hong Kong	3(3)	0(0)	3(3)	0(0)	
India	8(9)	1(4)	6(4)	1(1)	
Indonesia	2(2)	0(0)	2(1)	0(1)	
Ireland	5(5)	3(2)	2(3)	0(0)	
Israel	5(2)	2(0)	3(2)	0(0)	
Italy	4(4)	0(0)	4(4)	0(0)	
Japan	17(18)	16(17)	1(1)	0(0)	
Jersey	1(0)	0(0)	1(0)	0(0)	
Korea	8(8)	0(3)	8(1)	0(4)	
Liberia	1(1)	1(1)	0(0)	0(0)	
Luxembourg	5(3)	1(0)	4(3)	0(0)	
Marshall Islands	17(18)	16(16)	1(2)	0(0)	
Mexico	16(17)	0(0)	7(2)	9(15)	
Netherlands	9(9)	4(3)	5(6)	0(0)	
New Zealand	1(1)	0(0)	1(1)	0(0)	
Norway	2(2)	0(0)	2(2)	0(0)	
Panama	2(2)	1(1)	1(1)	0(0)	
Peru	2(1)	0(0)	2(0)	0(1)	
Philippines	1(1)	0(0)	1(1)	0(0)	
Portugal	1(1)	0(0)	1(1)	0(0)	
Russia	2(3)	2(3)	0(0)	0(0)	
South Africa	6(5)	2(2)	4(3)	0(0)	
Spain	4(5)	0(0)	4(4)	0(1)	
Sweden	1(1)	0(0)	1(1)	0(0)	
Switzerland	6(7)	3(4)	3(3)	0(0)	

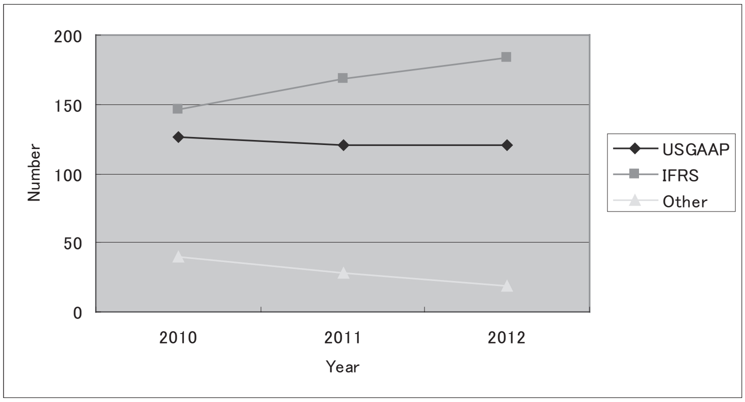
Taiwan	5(5)	0(0)	0(0)	5(5)	
Turkey	1(1)	0(0)	1(1)	0(0)	
United Kingdom	25(25)	0(2)	25(23)	0(0)	
Total	*410(386)*	*120(126)*	*184(146)*	*19(40)*	*87(74)*

Notes:*Other Form represents Form 10K. ** Among 84 Form 40F filers, there were 67 IFRS adopters, 7 U.S.GAAP adopters, and 10 Form 10K filers.

1.3. Moving to IFRS

Figure 1 shows the time series of accounting bases adopted by FPIs during the periods 2010-2012. It can be observed over the periods that the number of FPIs using IFRS is increasing, while the number using U.S.GAAP or Other is decreasing.

Figure 1：Time Series of Accounting Bases adopted by FPIs



The trends mostly come from the transitions among IFRS, U.S.GAAP or local GAAP. Table 2 gives an overview of the transitions.

Table 2：The transitions among Accounting Bases

	2010	2011				2012			
		U.S.GAAP	IFRS	Local		U.S.GAAP	IFRS	Local	
US.GAAP	126	*9.* −*8*	−7	0	120	*6.* −*3*	−3	0	120
IFRS	146	7	*9.* −*5*	11	168	3	*7.*−*3*	9	184
Other	40	0	−11	−*1*	28	0	−9	*0*	19

IFRS adoption in 2011

In 2011, the number of IFRS adopter increased by 22. From 7 U.S.GAAP adopters and 11 local GAAP adopters were made the transition to IFRS. Out of 7 U.S.GAAP adopters, there were 3 FPIs from Brazil, 1 from India and 3 from Korea. Out of 11 local GAAP adopters, there were 3 from Brazil, 4 from Korea, 1 from Mexico, 1 from Peru, 1 from Argentina and 1 from Indonesia. There is no FPI making the transition from local GAAP to U.S.GAAP. 9 out of new 18 FPIs adopted IFRS: Out of 9 IFRS adopters, there were 1 from France, 1 from Cayman Islands, 1 from Luxembourg, 1 from United Kingdom, 1 from South Africa, 1 from Israel, 1 from Jersey, 1 from Netherlands and 1 from British Virgin Islands. As a result, number of U.S.GAAP adopters totally decreases by 6 in spite of increase by 9.

IFRS adoption in 2012

The trend of transition to IFRS continues until 2012. The number of IFRS adopter increases by 16. Out of 3 of U.S.GAAP adopters making the transition from U.S.GAAP to IFRS, there are 1 FPI from British Virgin Islands, 1 from Cayman Islands and 1 from India. Out of 9 local GAAP adopters making the transition from local GAAP to IFRS, there are 3 FPIs from Argentina, 1 from Canada and 5 from Mexico. There is no FPI making the transition from local GAAP to U.S.GAAP. 7 out of new 13 FPIs adopt IFRS. Among 7 IFRS adopters, there are 1 FPIs from Bermuda, 1 from Cayman Islands, 1 from Mexico, 2 from United Kingdom, 1(Brazil) and 1 from Chile.

Which accounting basis FPIs adopt depends considerably on regulatory environments. Next section discusses countries' regulations for IFRS or U.S.GAAP or local GAAP.

Ⅱ. Regulatory Regulations concerning Accounting Bases

I summarize the countries' regulations by which the public traded companies are required or permitted to use IFRS or U.S.GAAP. It is reasonable that the regulators decide to adopt accounting bases by assessing social costs and benefits that arise from the adoption. However, I do not explain the reasons why and how regulators decide to adopt accounting bases (i.e. IFRS or U.S.GAAP or local GAAP).[13] In this section, I provide outlines of the regulations of FPIs' countries. Countries researched are geographically grouped in four areas as follows: Europe, the Americans, Asia-Pacific and Other Area (Table 3). After outlining the countries' regulations, I classify them into five types by patterns of regulations.

Table 3：4 grouped Areas of FPIs' Countries

Europe	Americas	Asia-Pacific	Other Area
EU member states, Russia, Switzerland	Argentina, Brazil, Canada, Chile, Colombia, Mexico, Panama, Peru	Australia, Hon Kong, India, Indonesia, Japan, Korea, People's Republic of China, Philippines, New Zealand, Taiwan	Israel, Liberia, South Africa, Turkey

2.1. Countries' Regulations of Accounting Bases

In this subsection, I outline countries' regulations of the accounting bases that public traded companies need to adopt in preparing in consolidated financial statements.[14]

(A) *Countries in Europe*：

EU member states

In accordance with the EU IAS Regulation, all European companies whose debt or equity securities are traded in a regulated market are required to apply IFRSs[15] as adopted by the EU for consolidated financial statements of starting in 2005.

Russia

In Russia, IFRSs is required for the consolidated financial statements of all companies whose securities are publicly traded. But, with respect to U.S.GAAP, there is an exception: companies currently use U.S.GAAP are not required to adopt IFRSs until 2015.

Switzerland

Switzerland is not a member of the EU, and therefore is not subject to the EU IAS Regulation. Listed companies are required to prepare consolidated financial statements using either IFRSs or U.S. GAAP. However, Swiss GAAP will not be permitted.

(B) *Countries in Americas*：

Argentina

In Argentina, all companies that publicly offer equity or debt securities must prepare their consolidated financial statements using IFRSs, starting the year ended 31 December 2012.[16]

Brazil

In Brazil, listed companies and certain regulated financial institutes are regulated to publish their consolidated financial statements in accordance with IFRSs beginning in 2010.

Canada

In Canada, IFRSs are required for all publicly accountable entities. However, with respect to U.S.GAAP there is an exception, that is, public accountable entities whose securities are publicly traded in the United States have an option to use U.S. GAAP.

Chile

In Chile, all companies registered with the Superintendency of Securities and Insurance (Superintendencia de Valores y Seguros or SVS) have been required to apply IFRSs as issued by the IASB since 2012.

Colombia

Pursuant to Colombia Law 1314 on 13 July 2009, all companies whose securities are publicly traded (Group 1) are required to use IFRSs in their consolidated financial statements, starting 1 January 2015.

Mexico

Mexico has adopted IFRSs for all listed companies other than financial institution and insurance companies, beginning on or after 1 January 2012.

Panama

Listed companies must report under either IFRSs or U.S.GAAP. Although most companies prefer to report under IFRSs, the option to report under U.S.GAAP is retained because of the strong influence of the U.S. model on Panama's commercial code and other laws.[17]

Peru

In Peru, public filer in the local stock market must prepare consolidated financial statements under IFRSs as issued by the IASB.[18]

(C) *Countries in Asia-Pacific*：

Australia

Australia has already adopted IFRSs since 1 January 2005. All domestic companies whose securities are traded in a public market are required to use IFRSs in their consolidated financial statements.

Hong Kong

Hong Kong Financial Reporting Standards(HKFRSs) have been fully converged with IFRSs for financial reporting periods commencing from 1 January 2005. Domestic companies whose securities trade in a public market are required to use HKFRSs, which is identical to IFRSs.

India

India has not adopted IFRSs. The Securities Exchange board of India (SEBI) requires all companies to file consolidated financial statements in conformity with the Accounting Standards approved by the Central Government. However, the SEBI has given the option to listed entities to prepare and file consolidated financial statements in conformity with IFRSs issued by IASB.

Indonesia

Indonesia has not adopted IFRSs. Indonesia's stated policy is to maintain its national GAAP and converge it gradually with IFRSs as much as possible. As of 1 January 2012, the local standards applied in Indonesia(called Indonesian Financial Accounting Standards) are based on IFRSs that were effective 1 January 2009 with some modifications.

Japan

In Japan, voluntary application of IFRSs for consolidated financial statements by companies that meet certain criteria has been permitted on and after 31 March 2010.[19] On 21 September 2012, the FAS changes the Ordinance prohibiting the companies from using U.S.GAAP after 31 March 2016. The new Ordinance permits ADR issuer registered in the SEC to use U.S.GAAP in preparing their consolidated financial statements, when permitted by the Secretary of the FSA.[20] So, presently Japanese public companies may be able to one out of the following four sets of accounting standards in their standards in their consolidated financial statements:[21]

1. IFRSs as issued by the IASB
2. endorsed IFRSs
3. Japanese GAAP, or
4. US GAAP.

Korea

Korea has already adopted IFRSs for all listed companies. All listed companies on the Korea Exchange are required to apply IFRSs. All other unlisted companies are permitted to apply IFRSs at their choice. If they do use IFRSs, there is no requirement to reconcile to Korean GAAP.

People's Republic of China

The Chinese Accounting Standards for Business Enterprises (ASBEs) issued in February 2006 were substantially converged with IFRSs. Based on the roadmap for continuing convergence of Chinese ASBEs with IAS released by the Ministry of Finance of China in April 2010, the ASBEs will be revised and improved in accordance with the revision and improvement of IFRSs.

Philippines

The Philippines Financial Reporting Standards Council (PFRSC) has adopted most IFRSs, in some cases with modifications and amendments. These standards are known as Philippine Financial Reporting Standards. Philippine standards apply to all entities with public accountability.[22]

New Zealand

In New Zealand, the use of IFRSs is required for all domestic companies whose securities trade in a public market. Entities were permitted to adopt NZ equivalent to IFRSs (NZ-IFRSs) for periods beginning on or after 1 January 2005. NZ-IFRSs were mandatory from 1 January 2007.

Taiwan

In Taiwan, listed companies and financial institutions, except credit cooperative, credit card companies, and insurance intermediaries, are required to prepare financial reports using IFRSs starting in 2013.

(D) *Countries in Other Area*：

Israel

In Israel, all domestic companies whose securities are traded in public market only in Israel are required to use IFRSs except for banking institutions. Companies whose securities are traded both in Israel and in specified other stock exchanges (dual listed companies) are allowed to file in Israel financial statements according to IFRSs, IFRSs as adopted by the EU, or U.S. GAAP.

Liberia

In the absence of a body that is legally empowered to determine and promulgate accounting standards, there is no legislation that specifies any accounting standard to be followed in Liberia. The Central Bank is the institution in Liberia that has been using IFRSs for its own financial reporting. It has also prescribed IFRSs for adoption by commercial banks by December 2012. Apart from the Central Bank requirement, no legislation specifies which entities must comply with IFRSs.[23]

South Africa

In 2011, the Government adopted new Companies Act Regulations under the Copanies Act of 2008. The Regulations permit the use of either IFRSs or the IFRSs for SMEs. South Africa GAAP (S.A.GAAP) was withdrawn and ceased to apply in respect of financial years on and after December 2012.

Turkey

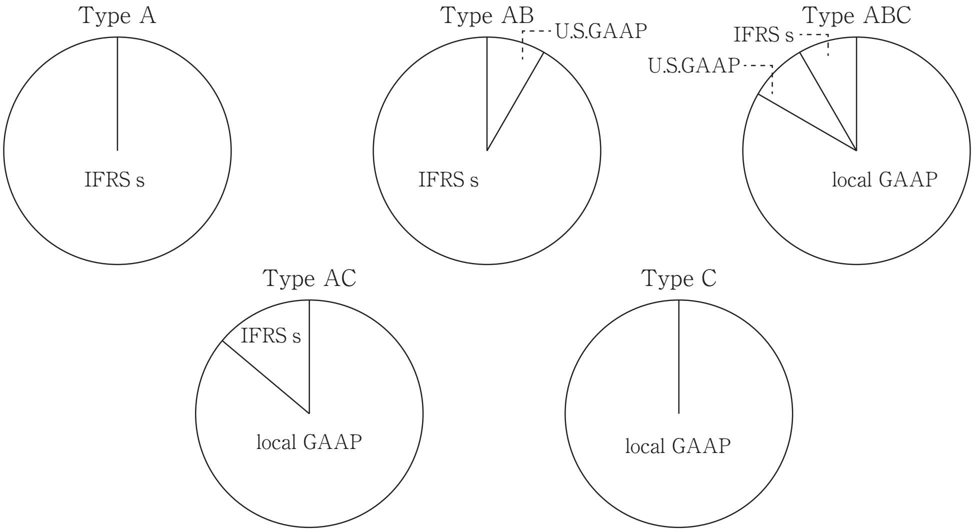
Turkey has already adopted IFRSs for the consolidated financial statements of all Companies whose securities are publicly traded.

2.2. Five Types of Regulation

There are three sorts of accounting bases, i.e. A : IFRSs, B : U.S.GAAP, and C : local-GAAP (for example, Japanese GAAP). Basing on which accounting bases the countries adopted, regulations could be classified into five types. The five types are showed on pie charts in Figure 2. However, proportions of accounting basses in each pie chart are nothing but schematic.

Type A requires only IFRSs. Included in Type A are the EU member states, Argentina, Australia, Brazil, Colombia, Hong Kong, Korea, Mexico, New Zealand, Peru, South Africa, Taiwan and Turkey. Type AB requires IFRSs, but permits U.S.GAAP. Included in Type AB are Canada, Israel, Panama, Russia (until 2015) and Switzerland. Type ABC permits U.S.GAAP, IFRSs or local-GAAP. Included in Type ABC is Japan. Type AC requires local-GAAP, but permits IFRSs. Included in Type AC are India and Liberia. Type C requires only local-GAAP. Included in Type C are China, Indonesia and Philippines.

Figure 2: Five Types of Regulations



Ⅲ. Why do some FPIs continue to use U.S. GAAP ?

3.1. Arising double Standards

This subsection discusses the reasons why some FPIs continue to use U.S.GAAP, although double standards may arise as a result of U.S.GAAP adoptions. I investigate FPIs that chose U.S.GAAP in 2012. Items of investigation in Table 4 are as follows : regulatory type, name of FPIs using U.S.GAAP, double standards, GAAP used in domestic markets, and overseas markets (the number of domestic markets in parentheses).

Table 4 : FPIs Using U.S. GAAP

Country	Type	Name of FPI :using USGAAP	Double Standards*	GAAP (Domestic**)	Overseas Markets (DomesticMarket**)
Brazil	A	Vale S.A.	○	IFRS	NYSE, Euronext-Paris, HongKong (1Market)
Canada	AB	Agnico-Fagle Mines Inc.	*	U.S.GAAP	NYSE
German	A	Elster Group SE***	—	—	NYSE (unlisted)
		Fresenius Medical Care AG & Co. KGaA	○	IFRS	NYSE (1Market)
Greece	A	National Bank of Greece S.A.	○	IFRS	NYSE (1Market)
India	AC	HDFC Bank Ltd.	○	local-GAAP	NYSE (2Markets)
Ireland	A	Elan Corp plc	○	IFRS	NYSE (1Market)
		Fleetmatics Group	—	—	NYSE (unlisted)
		James Hardie Industries SE	—	—	NYSE, ASX (unlisted)

Israel	AB	Taro	―	―	NYSE (unlisted)
		Teva	＊	U.S.GAAP	NYSE (1Market)
Japan	ABC	Advantest Corp.	＊	U..SGAAP	NYSE (1Market)
		Canon Inc.	＊	U.S.GAAP	NYSE (5Market)
		Honda Motor Co. Ltd.****	＊	U.S.GAAP	NYSE, LSE (2Markets)
		Konami Corp.	＊	U.S.GAAP	NYSE, LSE (1Market)
		Kubota Corp.	＊	U.S.GAAP	NYSE (2Markets)
		Kyocera Corp.	＊	U.S.GAAP	NYSE (2Markets)
		Mitsubishi UFJ Financial Group, Inc.	○	local-GAAP	NYSE (3Markets)
		Mizuho Financial Group, Inc.	○	local-GAAP	NYSE (2Markets)
		Nidec Corp.	＊	U.S.GAAP	NYSE (2Markets)
		Nippon Telegraph and Telephone Corp.	＊	U.S.GAAP	NYSE, LSE (5Market)
		Nomura Holdings, Inc.	＊	U.S.GAAP	NYSE, Sgpl (3Markets)
		NTT DoCoMo, Inc.	＊	U.S.GAAP	NYSE, LSE (1Market)
		Orix Corp.	＊	U.S.GAAP	NYSE (2Markets)
		Panasonic Corp.*****	＊	U.S.GAAP	NYSE (3Markets)
		Sony Corp.	＊	U.S.GAAP	NYSE, LSE (2Markets)
		Toyota Motor Corp.	＊	U.S.GAAP	NYSE, LSE (5Market)
Liberia	AC	Excel Maritime Carriers	―	―	NYSE (no exchange)
Luxembourg	A	Pacific Drilling S.A.	―	―	NYSE (unlisted)
Netherlands	A	AerCap Holdings N.V.	―	―	NYSE (unlisted)
		CNH Global N.V.	―	―	NYSE (unlisted))
		AVG Technologoies NV	―	―	NYSE (unlisted)
		ST Microelectronics N.V.	○	IFRS	NYSE, Euronext-Paris, Borsa Italian (unlisted)
Panama	A	Banco Latinamericano de Comercio xterior, S.A.	―	―	NYSE (unlisted)
Russia	A	Mechel OAO	＊	U.S.GAAP	NYSE (1Market)
		Mobile Telesystems OJSC	＊	U..SGAAP	NYSE (1Market)
South Africa	A	AngloGold Ashanti Ltd.	○	IFRS	NYSE (1Market)
		Gold Fields Ltd	○	IFRS	NYSE (1Market)
Switzerland	AB	ABB Ltd.	＊	U.S.GAAP	NYSE (1Market)
		Credit Suisse Group	＊	U.S.GAAP	NYSE (1Market)

Notes：* ○ indicates double standards, ＊, not double standards, ―, not applicable.
** I referr to annual reports on Form 20F or companies' Web cites.
***Elster decided to delist from NYSE in August 2012.
**** Honda decided to delist from NYSE in June 2013.
** ***Panasonic was delisted from NYSE in March 2013.

When some FPIs using IFRS or local-GAAP in domestic markets dare to use U.S.GAAP, double standards arise as a result. I investigate the causes of the double standards.

Brazilian FPIs

Vale is one of the largest metal and mining companies in the world and cross-listed publicly traded. Although Vale is required to use IFRS in annual report in the Brazilian Market[24], the company chooses U.S.GAAP in annual report on Form 20F in spite of adoptability of IFRS. Vale prefers using U.S.GAAP to IFRS. That brings double standards to the company.

German FPIs

Fresenius belongs in a healthcare industry, and is the world's largest kidney dialysis company. The company prepares the consolidated financial statements in accordance with IFRS for Germany market[25], but voluntarily prepares the consolidated financial statements using U.S.GAAP in annual report on Form 20F. That brings double standards to the company.

Greek FPIs

A Greece bank, National Bank of Greece S.A., is required to prepare the consolidated financial statements using IFRS in its annual report in the Greece market.[26] The bank continues to voluntarily use U.S.GAAP in annual report on Form 20F in spite of adoptability of IFRS. That brings double standards to the company.

Indian FPIs

HDFC Bank prepares the consolidated financial statements in accordance with the accounting principles generally accepted with in India (local GAAP) for domestic markets.[27] The bank uses IFRS in annual report on Form 20F in NYSE. That brings double standards to the bank. Though the SEBI has given the option to listed entities to use IFRS in domestic market, the bank does not use IFRS in domestic market, because the banking industry is required to use local GAAP. This case is the same as the Japanese case of the bank of FPI.

Irish FPIs

Elan Corp. plc is a pharmaceutical company. The company prepares its consolidated financial statements using IFRS of its annual report in domestic market[28]. The company continues to use U.S.GAAP in annual report on Form 20F in spite of double standards.

However, the Irish company Act 2009 (Miscellaneous Provisions, Section 1) allows the companies to prepare the consolidated financial statements in accordance with U.S.GAAP. The company prefers U.S.GAAP to IFRS in NYSE.

Japanese FPIs

Among Japanese FPIs, double standards arise in three banks, that is, Mitsubishi UFJ Financial Group (Mitsubishi UFJ F.G.), Mizuho Financial Group (Mizuho F.G.) and Sumitomo Mitsui Financial Group (Sumitomo Mitsui F.G.). The next subsection deals with these cases.

Dutch FPIs

ST Microelectronics N.V. is listed both in NYSE and in EU markets. Although the company is required to use IFRS in annual report[29] in the EU Market, it prepares consolidated financial statements in accordance with U.S.GAAP in annual report on Form 20F. That brings double standards to the company.

South African FPIs

Both Anglogold Ashanti and Gold Field belong to gold mining industry. Although the companies prepare their consolidated financial statements in accordance with IFRS in domestic annual reports[30], they continue to use U.S.GAAP in annual reports on Form 20F That brings double standards to the companies.

Why do some FPIs continue to use U.S.GAAP ?

Double standards arise in following cases : (a)U.S.GAAP and IFRS;(b) U.S.GAAP and local GAAP; and (c) IFRS and local GAAP as shown in Table 5. In this section, I deal with the case (a) where FPIs choose U.S.GAAP despite double standards. The cases (b) and(c) of double standards are discussed in the next subsection.

Table 5 : Double Standards

		NYSE		
		U.S.GAAP	IFRS	local GAAP
Domestic Markets	U.S.GAAP		uncommon	uncommon
	IFRS	(a) ○		uncommon
	local-GAAP	(b) ○	(c) ○	

Why do some FPIs continue to use U.S.GAAP, although double standards may arise as a result of U.S.GAAP adoptions?. I find two reasons. First, Some FPIs that belong to the special industries such as the mines, health care or pharmacy prefer the accounting system proper to the United States. Therefore, they adopt voluntary U.S.GAAP. For example, Vale (mines), Elan Corp (pharmacy) and Fresenius (healcare) belong to such industry. Second, FPIs that are listed in cross-markets continue to use U.S.GAAP in spite of double standards. FPIs such as Vale, ST (NYSE, Euronext-Paris and Hong Kong) and Microelectronic(NYSE, Euronext-Paris and Borsa Italian) choose status quo, i.e. U.S.GAAP, because, I suppose, the companies consider that the transitions in multi-markets might be very expensive.

3.2. Choice of Japanese FPIs : U.S. GAAP or IFRS

17 Japanese FPIs are listing in NYSE in 2012. Japanese public traded companies are permitted to use U.S.GAAP or IFRS besides Japanese GAAP (J-GAAP) in domestic markets. Double standards arise in two cases (i.e. (b) and (c)) shown in Table 6.

Table 6：Double Standards of Japanese FPIs

	Companies	Case	NYSE	Domestic-Market
bank	Mitsubishi UFJ F. G.	(b)	U.S.GAAP	J-GAAP
	Mizuho F. G.	(b)	U.S.GAAP	J-GAAP
	Sumitomo Mitsui F. G.	(c)	IFRS	J-GAAP

Two problems could be observed. The first problem is why three banks, i.e. Mitsubishi UFJ F.G., Mizuho F.G. and Sumitomo Mitsui F.G., do not avoid double standards. Although the banks use U.S.GAAP or IFRS in annual report on Form 20F, the banks continue to use J-GAAP in domestic annual reports. The reason for arising double standards is that it is a custom for the banking industry in Japan to use J-GAAP in preparing the consolidated financial statements.

Another more important problem is why Sumitomo Mitsui F.G. decided to use IFRS at the listing in NYSE on 1 November 2010, in contrast to other 16 FPIs that continue to use U.S.GAAP. Even though Sumitomo Mitsui F.G. could use U.S. GAAP, the bank decided to use IFRS. The bank considers that it is more beneficial to use IFRS than U.S.GAAP, because IFRS is more global, and required or permitted in many foreign markets. However, other 16 FPIs continue to use U.S.GAAP, because the companies consider that maintaining status quo is more beneficial than switching to IFRS.

The difference of IFRS adoption strategies between Sumitomo Mitsui F.G. and other 16 FPIs comes from different assessments of expected costs and expected benefits relating to transitions to IFRS. There arise two questions. The first question is whether or not the expected benefits outweigh the expected cost. The expected benefits include uniformity in global financial reporting, efficiencies and cost-effectiveness of global capital allocations, and cost efficiencies and proper processes for multinational companies. The expected costs relating the transitions include system improvement costs, learning costs and auditing costs. The expected costs are more critical to FPIs than expected benefits, because the expected benefits have longer term effects than expected costs；companies are apt to show myopic attitudes. However, the expected costs are different among FPIs according to the timing strategies of IFRS transitions.

The second question is when FPI should switch to IFRS. Sumitomo Mitsui F.G. considers that if the bank adopted U.S.GAAP at the listing in NYSE, it would need an IFRS transition in future so that two times transitions (Figure 4) would incur higher costs than one time IFRS adoption (Figure 3). Accordingly, Sumitomo Mitsui F.G. prefers IFRS to U.S.GAAP. On the other hand, other FPIs presently consider the costs of one time IFRS transition are higher than the status quo. Accordingly, the companies postpone the decision of a transition. However, Honda Motor recently schedules to use IFRS. The company considers that the net benefits of IFRS transition outweigh the ones of using

U.S.GAAP.[32] This trend might bring domino effects to Japanese FPIs, and encourage the issuers to use IFRS.

Figure 3 : One time Transition

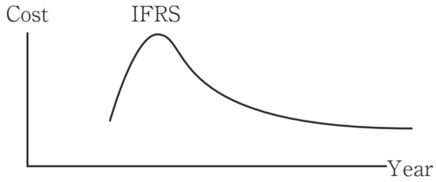
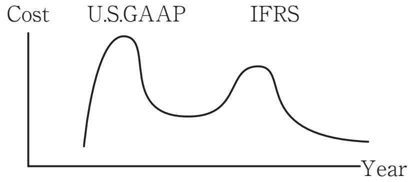


Figure 4 : Two times Transitions



Ⅳ. Future Direction

In this research, I find that the number of FPIs which have moved to IFRS adoptions during the period 2010-2012 is increasing. This fact is consistent with the increase of the number of the mandatory IFRS regulations. The results suggest that mandatory IFRS regulations rather than optional IFRS regulations encouraged FPIs to adopt IFRS. I find also another fact that FPIs choose U.S.GAAP in spite of double standards. This result suggests that some FPIs choose accounting bases considering expected costs and expected benefits. Accordingly, whether FPIs choose IFRS or U.S.GAAP depends on both their costs-benefits assessments and countries' regulatory strategies.

However, which accounting bases FPIs choose depends conclusively on the SEC's IFRS strategy. At the beginning of the regulation, PFIs were required to use U.S.GAAP in consolidate financial statements in annual reports on Form 20-F. If FPIs use non U.S. GAAP, the companies needed to disclose the reconciliation with U.S.GAAP. However, after the EU adopted IAS regulation in 2002, FPIs have been allowed to use IFRS. So, presently, three accounting bases, i.e. U.S.GAAP, IFRS and Other, are allowed in annual report on Form 20F. In future, whether the SEC confines FPI's accounting basis to IFRS depends on whether the SEC require for U.S. public company to use IFRS in annual report on Form 10K.

It is not easy for the SEC to accept IFRS adoption, because of the specific regulatory environment of United States (for example, securities laws, corporate governance and industrial regulation). To promote globalization of accounting standards, we need more global regulatory framework. Recently, Leuz(2010) discussed that convergence is unlikely due to persistent enforcement differences around the world. Accordingly, he proposed to create "Global Player Segment" (GPS), in which member firms play by the same reporting rules and face the same enforcement. If the idea of GPS is to accept, many FPIs will be included in GPS. In order to address these problems, more extended institutional research is needed.

Notes

1. EC, *Regulation No.1606/2002, 2002.*
2. FPI must meet the definition specified in the rules. Rule 4-05 of the 1933 Securities Act and Rule 3b-4 of the 1934 Securities Exchange Act provide the definition of the term FPI as follows:

   any foreign issuer other than a foreign government except an issuer meeting the following conditions…:

   (i) More than 50 percent of the outstanding voting securities of such issuer are directly or indirectly owned of record by residents of the United States; and

   (ii) Any of the following: (a) The majority of the executive officers or directors are United States citizens or residents; (b) More than 50 percent of the assets of the issuer are located in the United States; or (c) The business of the issuer is administered principally in the United States.
3. SEC, *Release No.33-8879*, 2007.
4. Ashbaugh(2001) is a representative paper dealing with the first issue. The paper investigated factors associated with non-US firms, listed with the London Exchange, voluntarily using IAS (now IFRS) or US-GAAP. He found that firms are more likely to use IAS when they participate in seasoned equity offerings and when U.S.GAAP requited more accounting policy changes relative to domestic GAAP. Dumontier and Raffournier(1998) is the earliest study. Although it's data was confined to Swiss Data, their study revealed that firms which comply with IAS are larger, more internationally diversified, less capital intensive and have a more diffuse ownership. Recently, Hope et al.(2006) examined country level determinants of IFRS adoption. Consistent with bonding theory, their study found that countries with weaker investor protection mechanisms are more likely to accept IFRS. Ramanna and Sletten(2012) suggest that perceived network benefits increase the degree of IFRS harmonization among countries, and that smaller countries have a differentially higher response to these benefits.
5. Daske et.al.(2008) is a representative paper dealing with the second issue. The paper examined on the economic consequences of mandatory IFRS reporting in 26 countries They found that market liquidity increases around the time of the introduction of IFRS. They also documented a decrease in firm's cost of capital and an increase in equity valuations, but only if they account for the possibility that the effects occur prior to the official adoption date. Comparing mandatory and voluntary adopters, they found that the capital market effects are most pronounced for firms that voluntarily switch to IFRS, both in the year when the firms switch and again later, when IFRS become mandatory. Gassen et.al.(2006) and Fito et.al.(2012) examined two issues. The former paper investigated the determinants of voluntary IFRS adoption by publicly traded German firms during the period 1998-2004. They found that size, international exposure, dispersion of ownership, and recent IPOs are important drivers. Using their determinant model, they found that significant differences in terms of earning equality: IFRS firms have more persistent, less predictable and more conditionally conservative earnings. The latter paper analyzed the determinants of companies in Spain that decided to choose early transition and also the consequences of this choice. They showed that the determinants of the early transition date are size and growth, and that the transition brought the change in the accounting figures and ratios and therefore comparability may be impaired. Recently, not only standards but also enforcements play critical role in realization of markets effects. Chirisensen et.al. (2013) investigated market effects around IFRS adoption. They found that across all countries, mandatory IFRS reporting had little impact on liquidity, and that there is little evidence of liquidity benefits in IFRS countries without substantive enforcement changes even for firms that experience enforcement changes but do not concurrently switch to IFRS.
6. Tarca (2004), in common with my paper, has interest in choice problems of accounting bases.

The study examined the extent to which companies voluntarily use U.S.GAAP or IAS (now IFRS). The study tested for a preference for U.S.GAAP or IAS and considered the relationship of choice of regime with firm attributes. However, since 2005 when IFRS became legally required in many countries, researches have focused on effects of IFRS adoptions. Despite mandatory IFRS adoptions, presently still FPIs listing in NYSE need decide to voluntarily use U.S.GAAP or IFRS. I am concerned with choice problems of these accounting bases. My paper researches FPI's choosing between accounting bases.

7. Yamamoto (2012) presented only results, but did not analyze them.
8. The SEC's EDGAR will allow a user to examine corporate fillings registered with the SEC on the Website, http://www.sec.gov/edgar/.
9. Form 20F is the registration statement or annual report for FPI under the 1934 Securities Exchange Act.
10. The numbers of foreign companies listed in five U.S. markets as of December 31, 2012 are as follows : NYSE, 410; NYSE MKT, 74; Global Market, 190;Capital Market, 55;OTC, 217.
11. See the list (Foreign Companies Registered and Reporting with the SEC) as of December 31, 2012, accessed June 22, 2013,
http://www.sec.gov/divisions/corpfin/intermat/foreignsummary2012.pdf.
12. Form 10K is the annual report for U.S. issuer under the Securities Exchange Act (1934 Act). Form 40F is the registration statement or annual report for Canadian issuer under 1934 Act.
13. Leuz(2010) explored the reasons why countries exist in the first palace as well as why they are likely to persist. The important implication of their finding is that convergence of reporting practices are unlikely due to persistent enforcement differences around the world. The paper suggested that more researches in the convergence process of IFRSs are needed.
14. See the jurisdiction profiles developed by IFRS Foundation's Website:
www.ifrs.org/Use-around-the-world/Pages/Jurisdiction-profiles.aspx.
In case where jurisdiction profiles are not found, I refer to IAS Plus.com,
http://www.iasplus.com/en/jurisdictions.
15. Term 'IFRSs' denotes an endorsed IFRS or IFRS as issued by the IASB that a regulator requires or permits to use. When this paper discusses an accounting bases choice, for example, IFRS or U.S.GAAP, I use term 'IFRS'.
16. IAS Plus.com, accessed July 6, 2013,
http://www.iasplus.com/en/jurisdictions/americas/argentina.
17. World Bank, "Panama: A Review of Accounting and Auditing Practices", *Report on the Observance of Standards and Codes (ROSC),* (2009):par. 32, accessed July 7, 2013,
http://www.worldbank.org/ifa/rosc.html.
18. IAS Plus.com, accessed July 6, 2013,
http://www.iasplus.com/en/jurisdictions/americas/country115.
19. On 26 August 2013, the Financial Services Agency of Japan (FAS) has released proposals to allow the wider voluntary IFRS adoption. Specifically, the following existing requirements would be removed. (1) An entity shall be a listed company in Japan. (2)The entity conducts financial and /or business activities internationally. See IAS Plus.com, accessed August, 27, 2013,
http://www.iasplus.com/en/jurisdictions/asia/japan.
20. The Cabinet Ordinance No.73 was adopted in December 2009 that prohibited the use of U.S.GAAP starting in fiscal years ending after 31 March 2016. In August 2011, the Ordinance No.44 revoked the requirement.
21. BAC, *The present Policy on the Application of IFRS*, (2013), accessed June 24, 2013, http://www.iasplus.com.en.news/2013/06/japan-bac-report.
22. IAS-Plus.com, accessed July 6, 2013,

http://www.iasplus.com/en/jurisdictions/asia/philippines.
23. World Bank, “Republic of Liberia: Accounting and auditing”, *ROSC*, (2011):par.33, accessed July 7, 2013, http://www.worldbank.org/ifa/rosc.html.
24. Vale S.A., Annual Report, (2012), accessed June 22, 2013, http://www.vale.com/EN/investors/Annual-reports/20F/.
25. Fresenius prepares besides Form 20F three sorts of financial statements: the 2012 Annual report (U.S.GAAP), consolidated financial statements 2012 complied with IFRS (German version) and financial statements according to German law (HGB). See Fresenius's Website, accessed June 22, 2013, http://www.fmc-ag.com/.
26. National Bank of Greece, *Annual Financial Report*, (2012), accessed June 22, 2013, http://www.nbg.gr/wps/portal/en/the-group/investor-Relations/.
27. HDFC Bank, *Annual Report*, (2012-13), accessed June 22, 2013, http://www.hdfcbank.com/htdocs/common/pdf/corporate/HDFC-Bank-AnnualReport-2012-13.pdf.
28. Elan Corp, *Annual Report*, (2012), accessed June 22, 2013, http://www.elan.com/phonix.zhtml?c=88326&P=irol-irhome/phx-corporate-ir.net/410561-AR3.pdf.
29. ST Microelectronics, N.V., *Statutory Annual Report* (IFRS), (2012), accessed June 22, 2013, http://www.st.com/phonix.2html?c=111941&P=irol-IRHOME/phx.corporate-ir.net, 2012-Annual-Report-STMicroelectronics-N.V.pdf.
30. AngloGold Ashanti, *Annual report*, (2012), accessed June 22.2013, http://anglogoldashanti.com/investors+and+media+Financial+reports+annual+Reports.htm; http:www.aga-reports.com/ AGA-annual-financial-statement-2012.
31. Gold Field, *Annual Financial Report*, (2012), accessed June 22, 2013, http://goldfield.co.za/reports/annual-report-2012/financials/pdf.
32. Nihon Keizai Shinbun (Japanese newspaper) on 24 August 2013 (morning paper) reported the IFRS transition schedules of Honda.

References

Ashbaugh, H. “Non-US Firms' Accounting Standard Choices.” *Journal of Accounting and Public Policy* 20(2001):129-153.

BAC (Business Accounting Council). *The present Policy on the Application of IFRS*. BAC (2013). Accessed June 24, 2013.
http://www.iasplus.com.en.news/2013/06/japan-bac-report.

Biddle, G.C. and M.S.Saudagaran. “Foreign Stock Listings: Benefits, Costa, and the Accounting Policy Dilemma.” *Accounting Horizons* (September 1991):69-80.

Chirstensesn H.B., L.Hail, and C.Leuz. “Mandatory IFRS Reporting and Changes in Enforcement.” *Working Paper* (June 2013). Available at
http://ssrn.com/abstract=1024240.

Daske, H. “ Economic Benefits of Adopting IFRS or US-GAAP－Have the Expected Cost of Equity Capital Really Decreased ?.”*Journal of Business Finance and Accounting* (April/May 2006): 329-337.

Daske, H., L.Hail, C.Leuz, and R.Verdi.“Mandatory IFRS Reporting around the World: Early Evidence on the Economic Consequences.” *Journal of Accounting Research* 46, no.5 (2008):1085-1142.

Deloitt Touche Tohmatsu. *Use of IFRS by Jurisdiction*. IAS Plus.com.
http://www.iasplus.com/.

Dumontier, P and B.Raffournier. “Why Firms Comply Voluntarily with IAS.” *Journal of International Financial Management and Accounting* 9, no.3 (1998):216-245.

EC.*Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on application of international accounting standards*, Official Journal L 243(November 2002).

EFRAG. "Considering the Effects of Accounting Standards." *Discussion Paper* (January 2011). http://www. efrag. org.

Fito, A., F.Gomez, and S.Moya. "Choices in IFRS Adoption in Spain: Determinants and Consequences." *Accounting in Europe* 9, no.1 (June 2012):61-83.

Gassen, J. and T.Sellhorn. "Applying IFRS in Germany: Determinants and Consequences." *Betriebwirtschaftliche Forschung und Praxis* 58, no.4(2006).

Hope, O-K., J.Jin, and T.Kang. "Empirical Evidence on Jurisdictions that Adopt IFRS." *Journal of International Accounting Research* 5, no.2 (2006):1-20.

ICAEW.*The Future of IFRS*, Financial Reporting Faculty, (2012):1-25. Available at: icaew.com/bettermarkets.

Leuz, C. "Different Approaches to Corporate Reporting Regulation :How Jurisdictions Differ and Why." *ECGI Working Paper*, no.156 (2010). Available at: http://ssrn.com/abstract=1581472.

McGregor, W. "In defence of IFRS Financial Statements." *CPA Australia*, (2012):1-9. Available at : www. cpaaustralis.com.au.

Nobes, C. *International Variations in IFRS Adoption and Practice*. Association of Chartered Certified Accountants (2011). Available at: http://www.acca.org.uk/content/dam/acca/global/.../rr-124-001.pdf.

Ramanna, K and E.Sletten. " Network Effects in Countries' Adoption of IFRS." *Working paper*, Harvard Business School(2012). Available at: http://ssrn.com/abstract=159045.

Rezaee, Z., L.M.Smith, and J.Z.Szendi.Convergence in Accounting Standards: Insights from Academicians and Practitioners. *Advances in Accounting* 26, no.1 (2010):142-154.

SEC (Securities Exchange Commission). "Acceptance from Foreign private issuers of Financial Statements prepared in accordance with IFRS without reconciliation to US GAAP." *Release No.33-8879* (2007). Available at: www.sec.gov/rules/final/2007/33-8879.pdf.

———. *Foreign Companies Registered and Reporting with the SEC as of December 31, 2012*, (2012). Accessed June 22, 2013.
http://www.sec.gov/divisions/corpfin/intermat/foreignsummary2012.pdf.

Tarca, A. "International Convergence of Accounting Practices; Choosing between IAS and US GAAP." *Journal of International Financial Management and Accounting* 15, no.1 (2004): 60-91.

Yamamoto, N. "Reconciliation Requirements of Form 20-F."*OIU Kokusai Kenkyu Ronso* [Journal of International Studies of Osaka International University] 25, no.3 (2012):143-159.

World Bank. "Panama: A Review of Accounting and Auditing Practices". *Report on the Observance of Standards and Codes (ROSC)* (2009):par.32. Accessed July 7, 2013.
http://www.worldbank.org/ifa/rosc.html.

———. "Republic of Liberia: Accounting and auditing." *ROSC* (2011):par.33. Accessed July 7, 2013. http://www.worldbank.org/ifa/rosc.html.