

PROFESSION'S past

25 YEARS AGO >>

Globalization and convergence

BY DAVE COTTON, CPA



It is easy to take for granted the way the profession is today — and assume it's always been that way. Ours is an evolving and dynamic profession. This column looks at the way we were a quarter-century ago.

The August 1990 issue of *Disclosures* featured an article by Thomas S. Watson Jr. called “Some impacts of EC 1992 on CPAs in the United States.” Watson was a global thinker before the term “global” took on the meaning we give it today. His article gave a brief summary of the history of the European Community (EC). In 1985, the EC had approved the Single Market program (commonly referred to as EC 1992) designed to remove trade barriers among the then 12 member states of the EC. The overall goal was to make the EC a powerful economic force, capable of competing with the United States. Watson posited that “by 1992, products should be able to move as freely within the EC as they do in the United States.”

Watson made several predictions about the effect of EC 1992 on CPA firms in the United States. He said that the emerging European market would have a major impact on U.S. businesses and would precipitate an influx of investors into the United States, especially in the Baltimore/Washington/Richmond/Norfolk corridor. “Each foreign

investor coming into the United States is a potential new client for CPA practitioners,” he advised.

He predicted that the “consolidation of the European Community in 1992 will set forces in motion that will change the practice of public accounting in the United States.” The European Parliament was in the process of passing an accountancy law setting the rules for financial reporting and auditing for all EC members. This, in turn, would put pressure on the United States to implement uniform accountancy rules for CPA firms across all of the states.

As the world shrank and business activity transcended geographic boundaries, there would be a need for common accounting principles and auditing standards so that global companies would not need to publish multiple sets of financial statements and have multiple audits to meet the rules of each country in which they did business.

Watson’s article proved to be remarkably prescient. The Maastricht Treaty formally established the European Union (EU) in 1993, taking EC 1992 several steps further in creating a unified European economy. In 2002, the Euro was introduced, establishing a common currency for most EU members. In July 2013, Croatia became the 28th nation to join the EU.

In terms of uniform accountancy rules, the European Parliament established its current rules (Directive 2006/43/EC) in 2006 covering “statutory audits of annual accounts and consolidated accounts.” These rules were aimed at “high-level — though not full — harmonisation of statutory audit requirements. A Member State requiring statutory audits may impose more stringent requirements, unless otherwise provided by this Directive.” This EU directive is quite similar, in fact, to the Uniform Accountancy Act (UAA) in the United States designed to make it easier for CPAs to practice across state boundaries. The adoption of the UAA has been a slow process, but currently, 51 of 55 U.S. licensing jurisdictions have embraced CPA practice mobility, a “practice privilege that generally permits a licensed CPA in good standing from a substantially equivalent state to practice outside of his or her principle place of business without obtaining another license.” See <https://www.cpmobility.org> for more information on mobility.

Uniform accountancy rules did not happen as quickly in either Europe or the United States, as Watson predicted. The convergence of global accounting principles and auditing standards has proven to be a similarly slow process.

In 2002, the EU mandated that companies listed on EU stock exchanges

prepare financial statements in accordance with International Financial Reporting Standards (IFRS) beginning in 2005. The United States had planned to achieve “convergence” with IFRS by now. But, as the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have studied the issue, full convergence has proved to be elusive. Instead of simply agreeing on adoption of IFRS for U.S. companies, the two boards have decided to work “jointly on areas identified for improvement in IFRS and U.S. GAAP.” The boards no longer predict a date for completion of these convergence projects.

Convergence of auditing standards has turned out to be equally challenging. We have three major audit standard-setting organizations in the United States (the Auditing Standards Board, the Government Accountability Office, and the Public Company Accounting Oversight Board) with distinct standards. So, full convergence with the international audit standard-setting organization (the International Federation of Accountants) will take a while. But all four bodies are focused on harmonization and avoiding unnecessary conflicts as they move forward.

In 1990, Thomas Watson had a vision of the global economy and the important and evolving role of the CPA in its future. The fact that globalization and convergence has not happened quickly makes his vision all the more impressive: he saw past the geopolitical and nationalistic hurdles and envisioned the eventual future that is now emerging. ■



DAVE COTTON, CPA, is partner at Cotton and Company, LLP, in Alexandria. He is a former VSCPA Board of Directors member and currently sits on the VSCPA Editorial Task Force. He joined the VSCPA in 1981.

✉ dcotton@cottoncpa.com

📱 connect.vscpa.com/DavidCotton

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