

Are international accounting standards necessary and feasible?

- based on Goeltz, "International accounting harmonisation: the impossible (and unnecessary) dream", *Accounting Horizons*, March 1991, 85-88.
- Goeltz is a businessman, from Seagram Corp NY
- fairly old paper, but no serious answer to it yet
- a difficult question to raise now, with IASB full steam ahead
 - similar to "the emperor has no clothes"
 - evidence for regulatory capture?
 - the regulators are a problem just as much as the monopolist they were appointed to oversee
 - jobs for the "boys"
- issues raised by Goeltz

- **national accounting regulations take a long time to develop**
 - eg in US the standard on financial instruments (SFAS 133) has taken some 20 years to emerge, and there is still some discussion.
- **given that agency problems differ across countries, and accounting serves different purposes in different countries, how long will international standards take, and will it be worth the wait?**
 - eg, US is a large country, investors are a long way from the company, accounting informs investors, agency issues are significant
 - contrast continental Europe (code law countries). Investors (banks) are informed by being on the board of directors. Role of accounting is setting limits for dividend distribution.
- **agreed standards may therefore be imprecise and fuzzy**

- **global financial markets have done quite well without IAS**
 - new equities issued to investors outside the country of issuer
 - 1984 \$300m
 - 1989 \$15bn
 - transactions in stocks from outside the country of the exchange accounts for 12% of all stock exchange trading
- **issue of materiality**
- **in international investment decisions, more important things to worry about**
 - political risk
 - changes in law for the repatriation of dividends
 - local competition
 - currency volatility
- **differences in accounting method not that important**
 - broad brush adjustments can be made
 - having the projects on *exactly* the same basis does not affect ranking of projects

Comment

- **raising funds is a matter of supply and demand**
 - investors' needs vs. company needs
 - agreement is the solution to agency issues
- **if UK companies want to raise funds in US, what's so wrong with them conforming to US investor needs**
 - eg reconciliation to US GAAP
- **agreement between international investors could require excessively strict accounting**
 - but some investors and some companies may prefer to accept larger agency problems
- **what happens to domestic companies, not wishing to raise international funds?**
 - need they comply with stricter IAS?
 - yes, by 2005, all EU companies need to switch to IAS

- **all goods have their price**
- **all projects need a cost-benefit analysis**

- **why are "domestic standards only" such a bad thing?**
 - they relate to country specific agency issues, ie solve a problem
 - if companies want to raise funds abroad, they need (and might be willing) to comply, or negotiate
 - if investors want to fund international projects, perhaps they need (and would be willing) to take more risks, or negotiate
- **why not have the international car?**
 - because geographical situations vary
- **why not have the international dress code?**
 - because climates are different
- **accounting is an answer to an information problem**
- **more emphasis on international auditing**

- **some argue that there is no need for regulation in accounting standards**
 - let a consensus emerge
- **Jamal, Maier and Sunder, "Privacy in E-commerce: development of reporting standards ... in an unregulated market", J of Accounting Research, May 2003.**
 - evaluates the voluntary development of information for shareholders in e-commerce.
 - little evidence of a race to the bottom.
- **OK, but if regulators can get to the market solution quicker, that's even better**