

Individual investors' attitudes towards listing requirements for foreign entities on U.S. stock exchanges and the promulgation of international accounting standards

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Abstract

The Securities and Exchange Commission (SEC) currently requires foreign issuers of securities listed on U.S. securities exchanges to either employ U.S. generally accepted accounting principles (U.S. GAAP) or include a statement of reconciliation to U.S. GAAP if they use their home country's accounting standards. With some exceptions, they are also required to comply with the provisions of the Sarbanes-Oxley Act of 2002 (SOA). John Thain, CEO of the New York Stock Exchange, states that these requirements hamper U.S. investments, economic growth, and employment opportunities. The Chairman of the International Accounting Standards Board (IASB), Sir David Tweedie, echoed Thain's comments. An important stakeholder who is affected significantly by the U.S. listing requirements is the U.S. individual investor. Accordingly this study examines their attitudes involving the extant rules for foreign listings on U.S. exchanges and other aspects of the issue. The study also examines their perceptions regarding accounting standard promulgation authority and the use of a global set of accounting principles. The results indicate that although U.S. investors are very much in favor of the listing of foreign companies on U.S. exchanges, they also endorse the current rule requiring either employment of U.S. GAAP or reconciliation to it as well as mandatory adherence to the SOA. In the area of accounting standards, although a large majority believed that the U.S. should control the accounting standards for U.S. listings, a smaller majority also believed that there should be a universal set of accounting principles for all stock exchanges.

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1. Introduction

Under existing federal securities legislation, foreign issuers of securities listed on U.S. securities exchanges must either prepare financial statements in accordance with United States generally accepted accounting principles (U.S. GAAP) or, if they utilize non-U.S. GAAP as their primary accounting principles, include a reconciliation to U.S. GAAP as a part of the financial statements (SEC, 2004). A few of the foreign issuers that are listed employ U.S. GAAP as their primary accounting principles, but most file their annual reports with the Securities and Exchange Commission (SEC) on Form 20-F, which incorporates the reconciliation. These issuers prepare their primary financial reports based on their home country's accounting standards and meet the requirements for U.S. exchange listing by filing the required reconciliation.

A separate but related issue regarding the listed securities of foreign companies is compliance with the Sarbanes-Oxley Act (SOA). The law did not provide exceptions for foreign issuers listed on U.S. exchanges. On the other hand, various provisions of the law provided authority to the SEC and/or the Public Company Accounting Oversight Board (PCAOB) to provide exemptions from specific provisions where the exemption was consistent with the purposes of the Act. As a result, the SEC delayed the implementation of certain rules until years which end after July 15, 2006. Also, the SEC has exempted foreign listed firms from a few SOA rules that are inconsistent with the laws of the home country. For example, non-management employees of the firm may serve on audit committees where that is mandated by the foreign country even though the regular SOA requirement would prohibit firm employees from serving on audit committees. Similarly, shareholders may select or ratify the selection of an auditing firm even though the terms of SOA would require that the audit committee be directly responsible for the appointment, compensation and oversight of the auditor.

Recently there has been substantial activity in the area of convergence of U.S. GAAP and international standards with the objective of cross listing of securities on a global basis without the reconciliation requirement. The International Accounting Standards Board's (IASB) Chairman, Sir David Tweedie, succinctly underscored the issue's significance by stating, "it isn't just about bookkeeping." (Heffes, 2004, 18) Tweedie avers that convergence of international and U.S. GAAP standards and the possible elimination of the reconciliation requirement will encourage investment, growth, employment and world trade (Heffes, 2004). John Thain, CEO of the New York Stock Exchange (NYSE), made a similar but somewhat more self-interested point in a speech in May, 2004. He stated that between 1996 and 2001, 50 foreign companies per year listed on the NYSE. During 2002 and 2003, the number dropped to 25, including a very severe drop in European listings. He argued that every U.S. listing of a foreign company provides opportunities for more U.S. directed investment, growth, and jobs. In his view, the decline in foreign listings is an important issue for the U.S. economy and a significant issue for him to address in his capacity as CEO of the NYSE. Thain listed several factors he believed were discouraging foreign firms from listing in the United States, including the SOA, the reputation of the U.S. for anti-business litigation, and the growth of alternative capital markets. He also considered the lack of convergence in accounting systems between the U.S. and Europe as a significant impediment (Thain, 2004).

Given the current requirements for U.S. exchange listings and the related movement toward convergence of accounting principles, we survey the current attitudes of U.S. individual investors regarding various facets of foreign listings on U.S. exchanges. We also examine their perceptions involving the promulgation of accounting standards. We focus on individual investors because they are the primary constituency of the SEC with respect to this issue and because there is

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