

Assessing the Acceptability of International Accounting Standards in the US: An Empirical Study of the Materiality of US GAAP Reconciliations by Non-US Companies Complying with IASC Standards

Donna L. Street,* Nancy B. Nichols,* and Sidney J. Gray†

*James Madison University, Harrisonburg, VA, USA; and †University of New South Wales, Sydney, NSW, Australia

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***Abstract:** With the International Accounting Standards Committee (IASC) reaching the completion of its core standards program, the International Organization of Securities Commissions (IOSCO) is considering its response to the IASC's application for endorsement of International Accounting Standards (IASs). A critical aspect of IOSCO's acceptance of IASs is likely to be the extent to which such standards are compatible with US Generally Accepted Accounting Principles (US GAAP). This issue is explored by an empirical study of US GAAP reconciliations by non-US companies complying with IASC standards. The results indicate that the impact of accounting differences between IASs and US GAAP is narrowing and suggest that the Securities Exchange Commission (SEC) should consider accepting IASC standards without condition. Alternatively, an SEC endorsement could include a short list of IASs where acceptance is subject to additional disclosures.*

With the International Accounting Standards Committee (IASC) reaching completion of its core standards program, the International Organization of Securities Commissions (IOSCO) is considering its response to the IASC's application for endorsement of International Accounting Standards (IASs). Given the significance of the US capital market in the global context, a critical aspect of IOSCO's acceptance of IASs is likely to be the extent to which such standards are compatible with US Generally Accepted Accounting Principles (GAAP). It is unlikely that significant differences from US GAAP will be easily accepted by the Securities Exchange Commission (SEC) in the US, a key IOSCO member, without the requirement for non-US companies to continue to provide a reconciliation to US GAAP.

Direct all correspondence to: Donna L. Street, School of Accounting, James Madison University, Harrisonburg, VA 22807, USA; E-mail: streetdl@jmu.edu

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The purpose of this project is to respond to the call for research to assist the SEC in assessing IASs for cross-border offerings of securities in the US (Turner, 1999a). Specifically, the research aims to identify the most important differences between IASC standards and US GAAP in practice and to assess the significance and materiality of these accounting differences with particular reference to the measurement of net income. To the extent that such accounting differences are not significant or material, the argument for accepting IASs without reconciliation to US GAAP will be supported. On the other hand, the contrary is likely to strengthen the argument for retaining the status quo.

THE IOSCO PERSPECTIVE

An important aspect of IOSCO's overall commitment to facilitating cross-border offerings and listings by multinational enterprises is the Technical Committee's participation in the IASC project to develop a core set of IASs (IASC, 1999). Following the March 1999 publication of the IASC interim standard on financial instruments, which resulted in the IASC substantially completing all key parts of the core standards, the IOSCO Technical Committee began its assessment of the core standards. The assessment will focus on whether the core standards are of sufficiently high quality to warrant permitting foreign issuers to utilize them to access a country's capital markets as an alternative to domestic standards.

In recent years, the IOSCO Technical Working Group on Multinational Disclosure and Accounting devoted substantial resources to participating in the development of the core standards. This process included providing commentary on key proposals in each standard. As part of the assessment, the Working Group is evaluating whether its concerns were addressed in the final core standards, whether the IASC's standards work together to form an operational whole, and the potential impact of the standards on investors, issuers, and the markets.

The Working Group has completed an analysis of its comment letters and has created a comprehensive inventory of outstanding issues on individual IASs. Currently, the Working Group is analyzing those comments to identify IASC standards that may be recommended for use on a cross-border basis without condition and those standards where acceptance may be subject to additional disclosures or other conditions.

After the Working Group has completed its analysis, the group will make a recommendation to the IOSCO Technical Committee. The Technical Committee will then decide whether to recommend that IOSCO members permit foreign issuers to use IASs in lieu of national standards for cross-border offering and listing purposes. The Technical Committee considers completion of the IOSCO assessment as a matter of great urgency.

THE SEC PERSPECTIVE

As a key member of IOSCO, the SEC has stated its commitment to support the IASC but, in line with the IOSCO agreement, has indicated (SEC, 1996) there are three key elements in the acceptance of IASC Standards. First, the standards must include a core set of standards that constitute a comprehensive generally accepted basis of accounting. Second, the standards must be of high quality and result in comparability, transparency, and full disclosure. Third, the standards must be rigorously interpreted and applied. As Zeff (1999)

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