

International Accounting Standards in Capital Markets

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Capital markets have become increasingly globalized due to advances in technology and communications and the growing trend of national governments' initiatives to deregulate their capital markets. Globalization of the world's capital markets necessitates the need for comparable and reliable financial information to support the varied transactions and operations of the markets. Regulatory initiatives have been undertaken at the national, bilateral, regional, and international levels to deal with the problems created by diversity in accounting reporting in international capital markets. This paper discusses the progress and impediments faced at each level in attempting to harmonize accounting reporting requirements, describes interactions between regional and international harmonization efforts, and suggests the most desirable and feasible course of action to achieve global harmonization in international capital markets. Efforts of the International Accounting Standards Committee (IASC) and the International Organization of Securities Commissions (IOSCO) have focused on a common goal—having financial statements used in cross-border listings prepared in accordance with international accounting standards as an alternative to national accounting standards. Although no international mechanism exists for enforcing the accounting standards of an international body, IOSCO is the most likely organization to implement conformance.

Key Words: harmonization; international capital markets; interactions between regional and global harmonization efforts; IOSCO; IASC.

In the last decade, capital markets have become increasingly globalized due to advances in technology and communications which have effectively linked the

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markets of the world. Due to the growing trend of national governments to deregulate their capital markets, investors are increasingly interested in foreign equities as a means of enhancing investment performance (Choi and Levich 1994). Globalization of the world's capital markets has brought to the forefront the increasing need for comparable and reliable financial information to support the varied transactions and operations of these markets.¹

Diversity in accounting reporting (defined as measurement, presentation, and disclosure) affects capital market participants. In an extensive survey of capital market participants, i.e., investors, corporate issuers, investment underwriters, market regulators, and rating agencies, almost one-half of the respondents stated that their capital market decisions were affected by accounting diversity (Choi and Levich 1991b). In the absence of comparable accounting principles and disclosure practices, analyzing foreign financial statements is difficult for investors. For companies seeking to raise capital in foreign markets, complying with foreign disclosure and reporting requirements often becomes a cumbersome and costly process. For regulators faced with the dual responsibility of protecting domestic investors and attracting foreign companies to the domestic market, developing reporting and disclosure requirements for foreign companies becomes a fine balancing act.

Regulatory initiatives have been undertaken at many levels to harmonize accounting reporting requirements in capital markets to facilitate cross-border listings. The purpose of this paper is to review recent developments in efforts to harmonize accounting reporting requirements, particularly those pertaining to the harmonization of global stock exchanges.

RESPONSES TO ACCOUNTING DIVERSITY IN CAPITAL MARKETS

Attempts to alleviate the problem of diversity in accounting reporting in the capital markets are currently being made at the national, bilateral, regional, and international levels.² This paper discusses the progress and impediments faced at each level in attempting to harmonize accounting reporting requirements in capital markets by analyzing specific examples from the U.S. (national level), Canada-U.S. (bilateral level), African Accounting Council, the Association of Southeast Asian Nations, and European Union (regional level), and the International Accounting Standards Committee (international level). While there are other countries and organizations engaged in promoting harmonization, the above examples were selected because they represent some of the more prominent initiatives at each of the levels. The paper concludes with a discussion of the interaction of harmonization efforts at the different levels.

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