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Measuring convergence of National Accounting Standards with International Financial Reporting Standards

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Abstract

This paper analyses three methods for measuring the success achieved in effecting convergence between any two sets of accounting standards. We begin by reviewing a measurement method based on the concept of Euclidean distances. We then propose two better measures (involving Jaccard's coefficients and Spearman's coefficients) to assess the progress of National Accounting Standards setting bodies in converging their standards with International Financial Reporting Standards [IFRS]. For illustrative purposes, we measure the convergence of National Accounting Standards in Portugal with International Accounting Standards [IAS] and IFRS over the period 1977–2003.
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1. Introduction

This paper explores sophisticated measures for assessing and comparing the *success* achieved in converging National Accounting Standards with internationally-prescribed sets of accounting standards (such as those comprising IFRS).[1]

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[1] Perversely, the measurement techniques canvassed can also be regarded as indicators of the failure of 'cosmopolitanism' to prevail in accounting. There are many interpretations of 'cosmopolitanism' (e.g., *Stanford Encyclopedia of Philosophy*, http://plato.stanford.edu/entries/cosmopolitanism/ last accessed December 6, 2004). But here the term is considered to represent the loss of opportunities to 'celebrate global differences'; respond to

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The development of sophisticated measures of convergence is important for two principal reasons. First, not all countries have committed to adopting IFRS. For example, Iceland, Japan and Saudi Arabia are reported by the International Forum on Accountancy Development [IFAD] (2003) to have not yet expressed an intention to converge with IFRS. Some other countries (e.g. New Zealand) have opted to converge with IFRS over a longer time period (by 2007). Indeed, IFAD (2004) has reported also that as at December 3, 2004, IFRS were 'not permitted for domestic listed companies' in 36 countries (including Argentina, Brazil, Canada, Chile, Fiji, India, Indonesia, Mexico, Philippines Taiwan, Tunisia, United States and Vietnam). Consequently, for such countries, there are likely to be information benefits in measuring and monitoring the extent to which National Accounting Standards approximate IFRS. There are also likely to be benefits for capital markets and other users of financial statements in helping to assess the quality and comparability of published accounting data in those countries.

Measurement of convergence is important also because, in some EU countries that have adopted IFRS in 2005, the application of IFRS does not extend to all entities, but is confined to listed companies. The accounting standards that are to apply to non-listed companies are being debated in such countries, and an important issue is whether IFRS will affect the accounts of non-listed companies. Street and Larson (2005, p.1) conclude that 'most EU members do not plan to converge national GAAP with IFRS, thereby highlighting . . . concerns regarding the emergence of a "two-standard" system in the EU'. The main barriers to convergence identified by the survey are the link between financial accounting standards and tax accounting; and disagreements about the complicated nature of certain IFRS, especially those associated with 'fair value' accounting (see Street & Larson, 2005, p.23).

It seems to be taken for granted that IFRS are good for non-listed companies and that they should supersede National Accounting Standards. Perhaps this is because the official discourse of international accounting standardization is made by 'the audit industry and its agents' in such a way that 'users tend to be represented rhetorically rather than physically' (Hopwood, 1994, p.243). Why has there been such a sudden rush to converge national GAAP with IFRS, even for non-listed companies? Is financial accounting 'solely a functional reflection of the internationalization of financial markets, or are other factors at stake?' (Hopwood, 2000, p.763). How does accounting, as a technology and a social practice, serve to structure various institutional fields affected by globalization? Why is it that accounting technologies and accountants help to propagate organizational agendas, policies and purposes and, in doing so, amplify certain voices but do not 'amplify others, yet these others deserve to be heard' (Graham & Neu, 2003, p.467).

In 2003, the Portuguese Accounting Standards Board (*Comissão de Normalização Contabilística*) [Comissão de Normalização Contabilística (CNC), 2003] proposed a dual accounting model for Portugal.[2] This model required individual and consolidated accounts

issues of 'culture, identity and belonging'; and to represent the extent to which individual nations have succumbed to the activities of the International Accounting Standards Board and to 'a culture of calculation and control [that perpetuates] the interests of private capital in a globalizing world economy' (Lehman, in press, pp.3–4). The authors enter no judgment on whether the convergence of national accounting standards with IFRS is good or bad. Readers are free to interpret the measures we analyze as indicative of the 'loss of cosmopolitanism' if they like.

[2] Proposed in a paper 'Projecto de Linhas de Orientação para um Novo Modelo de Normalização Contabilística' (Proposed Guidelines for a New Model of Accounting Standardization).

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