



Harmonization of International Accounting Standards

Processes and Policy Steps

It is argued that international accounting standards are a necessary part of the rapidly globalization economy. However it is important to outline the steps necessary to establish these standards. This paper explores the issues surrounding harmonization of accounting standards between nations.

Rationale

To allow the gains from the global economy to be fully realized, it is argued that accounting policy should be standardized among nations. This "harmonization" of accounting standards will help the world economy in the following ways: by facilitating international transactions and minimizing exchange costs by providing increasingly "perfect" information; by standardizing information to world-wide economic policy-makers; by improving financial markets information; and by improving government accountability. International investment decisions and financial-based management decisions are then made with less risk.

A harmonization of accounting policy would help provide a "level playing field" globally. Regulators and auditors will be receiving the same information, facilitating the evaluation process. In the absence of free trade, international accounting standards will allow nations' tariffs, quotas and other trade restraint mechanisms to be more accurate and less risky for those engaged in trade. Investors and managers will be able to make more

valuable decisions. World resources will be better managed and allocated. It is possible, due to their necessity, to have international accounting standards (IAS) harmonization. The following outlines the issues surrounding the development of these standards.

Systems for Change

Historically, there have been four accounting standards models in the industrialized countries: The United Kingdom, Continental Europe, the United States and Latin American models. The International Accounting Standards Committee (IASC) has taken the lead in the standardization of these models.¹ The IASC is the result of efforts begun in 1973 by the United States, Canada and the United Kingdom toward internationalism in accounting standards. Currently there are representatives from accounting bodies in 106 countries and there have been 31 standards issued to date. Most of these opinions correlate with American Institute of Certified Public Accountants' (AICPA's) Accounting Principles Board and Financial Accounting Standards Boards (FASB) statements.²

Harmonization must begin with a standardization of the reporting requirements by national securities regulators. Participants in the globalized financial markets are demanding international accounting standards.³ The International Organization of Securities Commissions (IOSCO), of which the U.S. Securities Exchange Commission is a member, is taking

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