

**L** LABORATOIRE

**O** ORLEANAIS

**G** DE GESTION

LABORATOIRE ORLEANAIS DE GESTION  
EA 26.35

**I.A.E**

Faculté de Droit d'Economie et de Gestion  
rue de Blois - B.P. 6739  
45067 Orléans Cedex 2

Tél. : 02 38 41 70 28

Fax : 02 38 49 48 16

E.Mail : [log@univ-orleans.fr](mailto:log@univ-orleans.fr)

<http://www.univ-orleans.fr/DEG/LOG/>



INSTITUT  
D'ADMINISTRATION  
DES ENTREPRISES

**Document de  
recherche**

**N° 2000 – 8**

*The Kontiki  
of Global  
Accounting*

**George MICKHAIL**

# The **Kontiki** Of **Global Accounting**

**George MICKHAIL<sup>1</sup>**

Visiting Maître de Conférence, IAE, Université d'Orléans, France  
Visiting Scholar, College of Business, University of Houston, USA  
Accounting & Finance, University of Wollongong, NSW 2522, Australia

**Amanda GRAAF**

Accounting & Finance, University of Wollongong, NSW 2522, Australia

---

<sup>1</sup> All correspondence should be addressed to Mr George Mickhail at: Department of Accounting and Finance, University of Wollongong, NSW 2522, Australia. E-Mail address: [george@uow.edu.au](mailto:george@uow.edu.au).

# Synopsis

Global financial reporting is experiencing a “credibility crisis” due to concerns about the quality of reporting of financial results by corporations, which has been eroding in the rush to meet market expectations. This controversy highlights the need to examine the increasing expectation of ‘harmonisation’ by stock exchanges around the world, companies seeking global capital flows and the financial statement users. Meanwhile, securities regulators attempt to redefine their accounting standards, to cater for a global audience, without compromising market stability. The central question of this essay is whether Australian accounting standards are going to continue to exist in the future or not, given the current global changes that have prompted market and accounting regulators to find ways of addressing this problem. One such solution is adopting international accounting standards, which would enable foreign companies to list on domestic stock markets without the need for *translating* their accounts to comply with domestic rules. A number of arguments were raised as to whether to use international accounting standards or not. These include economic arguments, which are related to investors, stock exchanges, regulators and domestic companies. This is a contentious issue especially with the changing role of the IASC from one of developing basic standards in 1992, to a ‘pre-eminent’ international standard setter. Day (1997:p10) poses the question: “*is it possible to become the leading standards setter in such a short period?*” especially, when you are ‘*competing in producing standards*’ against the United States, whose standards are recognised as the world’s best practice? Australia has embraced a pragmatic approach with its

view to harmonisation, as a step toward financial reporting ‘*nirvana*’ and not the destination itself. This view is in agreement with that of the International Accounting Standards Committee (IASC), which recognises the importance of a working partnership with domestic standards setters. Naturally, the United States global political weight is decisive and its intended role in the harmonisation process is subversive if it replaces the IASC structure with that of its own Financial Accounting Standards Board (FASB) as the global standards setter. This pressure is resulting in a loss of confidence in the harmonisation landscape for it is uncertain for domestic standards setters whether Australian standards will co-exist and/or should comply with either US standards or international standards in the future.

## **I. Introduction**

The international financial system is going through a “*paradigm shift that is driven by electronic borderless commerce, financial innovation and longer term changes in consumer needs*” (Day, 1997:p11). The globalisation of accounting reporting is confronting market regulators worldwide with a critically important choice, of whether to allow foreign companies to use international accounting standards to list on their stock markets, or not.

Top securities regulators (Levitt, 1998) around the world are expressing concern about the quality of reporting of financial results by corporations, which they say has been eroding in the rush to meet market expectations. The U.S. Securities and Exchange Commission Chairman Arthur Levitt (1998) called for “*immediate action to improve the quality of financial*

*statements*”, including new accounting rules and a “*wholesale cultural change*” on the part of Wall Street and company managers.

Peter Day (1997:p12) argues that, standard setters can no longer ignore the intense competition in world capital markets and the developments in information and telecommunication technologies because “.. *they have altered the nature and operation of business and the financial system.*” Furthermore, he contends that these developments would enable our companies access to capital, benefit from international competition and innovation, as a result of “.. *the small size and depth of Australia’s financial market.*” This, according to Day (1997:p12) naturally results in a need for, “ .. *Australia’s regulatory requirements, to be in step with those of our trading partners.*” However, he warns that, “.. *rapid change and rapid response to accounting issues could stall because it’s difficult for elephants to dance*” as accounting setting moves global.

It is of no surprise then, that Australia has realised the inevitability of harmonization, and according to Bir (1997), “.. *the International Harmonisation Program (IHP) of the Australian Accounting Standards Board (AASB) and the Public Sector Accounting Standards Board (PSASB) involve harmonising Australia’s accounting standards with the International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC).*” Moreover, he argues that the ideal would be for an Australian reporting entity complying with Australian accounting standards to be also in compliance with the IASs. Though, he cautions that compliance with IASs will not ensure compliance with Australian accounting standards.

This is particularly the case, given the “*poor drafting*” (Ravlic, 1999:p33) in international standards, which forced the Australian regulatory bodies to “*critically evaluate*” its harmonisation efforts with IAS pronouncements. Parker (1997), asserts that, “.. *the objectives of the harmonisation program are two fold: to change Australian accounting standards (both the AAS and the AASB series), and to influence the development and change of the IASC standards.*”

In this essay, the discussion will firstly begin by outlining the problems associated with global financial reporting. Secondly, I will outline the issues that are associated with the use of international accounting standards. Thirdly, a critical evaluation of the future of Australian Accounting Standards will be provided. Finally, the conclusions will report the findings in the essay.

## **II. The Dilemma of Global Accounting**

Elizabeth Macdonald (1998:p1), columnist with the Wall Street Journal, writes:

*“It sounds inviting: a single, unified set of international accounting rules that corporations anywhere can use to list on any stock market on the planet.”*

with reference to what the International Accounting Standards Committee hopes to achieve by publishing a full set of international rules. The question of whether market regulators around the world would allow foreign

companies to use the international rules to list on their stock markets however still remains.

Macdonald (1998) argues that despite the fact that several countries, including Australia, have welcomed the global accounting rules, the United States is not willing to accept them for political and regulatory reasons.

The United States has been and still is particularly influential in shaping global accounting due to its 'vital' role. Nobes (1998:p11) argues that harmonization of financial reporting can only be achieved with the support of '*vital countries*' that are of economic and accounting significance. He further argues that, "*a strong accounting profession is unlikely to grow up in a country of little economic importance.*"

In economic '*vitality*' terms, the United States, according to the Economist (1998), has the world's largest market capitalization and is second in being the home country of the world's largest companies. Nobes (1998) argues that in accounting '*vitality*' terms, the United States has the world's largest and most developed accounting profession, given that it is one of the founders of the International Accounting Standards Committee (IASC) and its accounting firms have grown into leading international firms.

Australia, as one of the US major trading partners where our imports of the United States amount to 25% of our total imports and our exports to the United States amount to 6% of our total exports. Australia, also a member of the G4+1 (along with New Zealand, Canada, UK and the United States), is likely to follow closely the political interests of the other G4+1 members in the harmonisation process (Day, 1997:p3). Furthermore, Nobes *et al.*

(1998:p13) argue that, “*Australia, Canada and New Zealand are unlikely to take any action to forestall accounting endeavours supported by both the United States and the United Kingdom.*”

This suggests that the United States has the leading role in the accounting setting process and the greatest influence on the *shaping* and *adoption* of the International Accounting Standards, and making an imperative for other countries to follow.

### **III. The Dilemma of International Accounting Standards**

The central question of this essay is whether Australian accounting standards are going to continue to exist in the future or not, given that the current global changes have prompted market and accounting regulators to find ways of addressing this problem. One such solution is adopting international accounting standards, which would enable foreign companies to list on domestic stock markets without the need for *translating* their accounts to comply with domestic rules. To answer this question, the pros and cons of the harmonization of accounting standards needs to be considered. A number of compelling arguments are outlined as follows:

#### *The Economic Argument*

Macdonald (1998:p1) contends that global capital flows and accelerated global mergers would be the direct result of the application of a common set of international accounting rules.

*The Investors Argument*

If international rules were accepted everywhere, investors avoid the need to go through the “*statistical log surrounding country by country accounting rules*” (Macdonald, 1998:p1), which simplifies ‘*tracking*’ the true earnings power of foreign companies. This will enable both little individual investors and institutional investors to buy foreign stocks cheaply.

*The Stock Exchanges Argument*

The New York Stock Exchange (NYSE), like any other Stock Exchange around the world, supports the application of international standards for it would “*profit from additional foreign listings*” (Macdonald, 1998:p1).

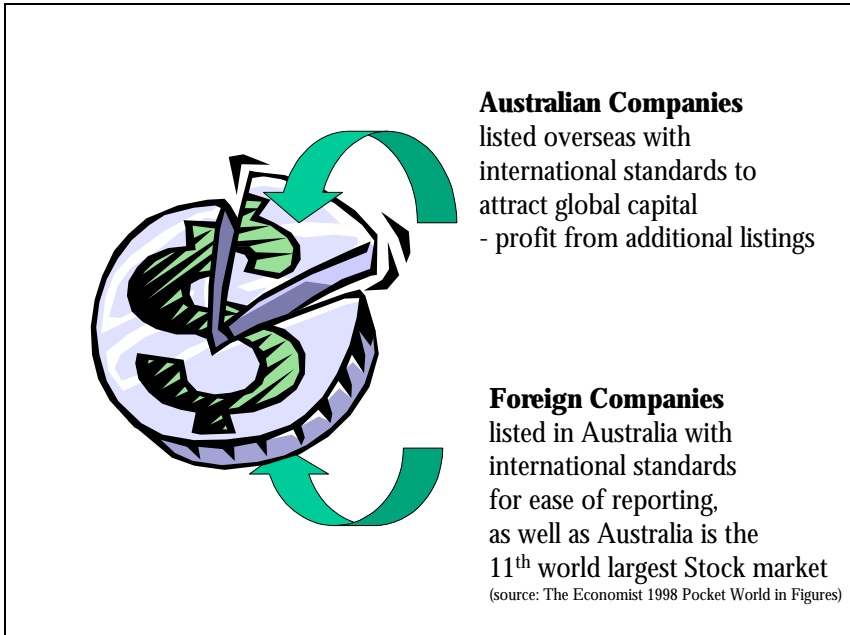


Figure 1 – Desire for International Standards by Domestic and Foreign Companies

Moreover, the Australian Stock Exchange is funding the international harmonisation project with A\$1m, for it predicts an increase in foreign investment flow into Australia (which currently represents 20% of the ASX turnover), “*if Australian companies complied with the IASC accounting standards*” (Parker, 1997:p44). This is likely to exert pressure on market regulators from within and abroad to adopt international standards.

### *The Regulators Argument*

The Securities Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) in the United States, are not likely to allow the use of international standards because the U.S. rules still “*give more information*

*to investors that's of higher quality and greater consistency"* (Macdonald, 1998:p1). Additionally, the SEC is left with the double duty of enforcing both international and domestic rules at a time when it is strapped for resources.

#### *The Domestic Companies Argument*

Australian companies that are held to tougher domestic rules are likely to object to the listing of their foreign counterparts in Australia using 'gentler' international standards. They could rightfully argue the unfairness of having to follow the more detailed, and onerous Australian rules.

### **IV. The Future of Australian Accounting Standard**

It was British international ventures that began the 'modern' chapter of Australian history. These foreign companies and joint ventures were required to 'report home' of their discoveries of the great southern land. The isolated colony, falsely settled under the doctrine of terra nullius, began by importing its requirements of law and regulation.

Slowly the isolated colony began to take on identity and new Australian ventures began. Many facets of Australia, including accounting regulation began on an imported framework (predominantly from the UK and later the US) and then through its usage and subsequent modification, combined with the isolation of the time, it has since taken its own unique Australian identity.

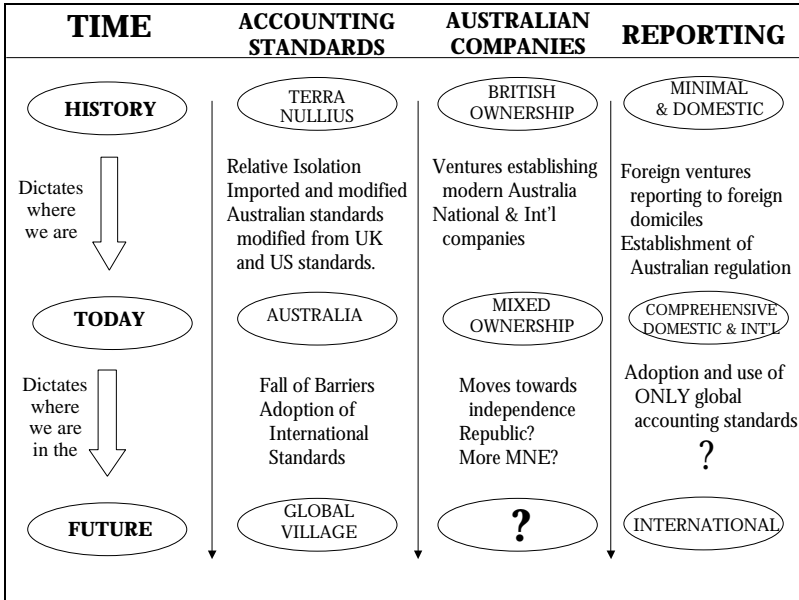


Figure 2 – The Evolution of the Australian Economic Landscape in relation to Companies and their Reporting Requirements

Some of the defining characteristics (Nobes, 1998:p15-28) of what is uniquely Australian can be thought of in terms of its external environment, culture and legal system. Australia has been influenced by its former colonial power, the UK whose culture was overwhelming in shaping our accounting and regulatory systems. Other defining characteristics may include: language, religion, providers of finance, geography, taxation, the accounting profession, inflation, theory and accidents. Those characteristics provide the underlying impetus for retaining Australian accounting standards, for they preserve the country's identity.

So, back in these days of old a combination of ‘foreign’ and new Australian companies’ were reporting as required by the newly modified law and regulation.

Since this time, a few years have passed and Australia is currently at the point of selecting constitutional independence with movements of becoming a republic. The domestic and international evolution, socially, politically, culturally and economically, sees us at a point where multinational companies are a sizable component of the business landscape and who, along with national companies must adhere to relatively far more stringent and comprehensive reporting requirements as set out in the well developed Australian Accounting Standards.

Ravlic (1999:p41) reports that the IASC chairman Stig Enevoldsen contends that there is a need for “*a single accounting language because of increased globalisation of business.*” Enevoldsen argues (Ravlic, 1999:p41) that, “*I believe we still need strong standard setters in each individual country. We need that partnership with standard setters so we can develop the accounting rules together.*” This corresponds to the view by Australian regulators of harmonization with the IASC, “*.. as a step toward financial reporting ‘nirvana’ and not the destination itself.*” (Ravlic, 1999:p33)

These developments and the future of Australian standards need not be seen in absence of the political environment surrounding standards setting. The IASC is aware (Ravlic, 1999:p40) of the United States political agenda in replacing its structure with that of the FASB as the global standard setter.

It is clear from the above discussion that, the future of Australian standards rests with the developments from our political affiliations with the G4+1. In the short term, there are no viable alternatives to our own standards. As for the long term, the future appears to be holding the ideal of the development, adoption and use of one set of international accounting standards.

## **V. Conclusion**

The global ‘accounting’ dilemma is confronting market regulators around the world with a choice of whether to allow foreign companies to use international accounting standards to list on their stock markets, or not. This is taking place against a background where the quality of reporting has been eroding in the rush to meet market expectations, which have concerned top securities regulators. Australia’s pragmatic approach to harmonization acknowledges that it is not the destination itself, still recognises the importance of a working partnership with the IASC and the other G4+1 members. The Australian dilemma is a result of the domineering role of the United States in the harmonisation process, which leaves domestic standards setters in an effective limbo. This explains the loss of confidence in whether Australian standards will co-exist and/or should comply with either the US standards or international standards in the future.

## References

Bir, P. (1997), "The International Harmonisation Program Revisited", CPA Communique, No. 79, Australian Society of CPAs Publication, Australia.

Day, P. (1997), "The Future of Accounting Standards in Australia", ASCPA/University of Melbourne Annual Accounting Research Lecture, Australian Society of CPAs Online Publications, [http://www.cpaonline.com.au/html/misc/pg\\_aarl\\_acctstand.htm](http://www.cpaonline.com.au/html/misc/pg_aarl_acctstand.htm).

Levitt, A. (1998), Levitt calls for action to improve quality of companies' report, New York University's Center for Law and Business Distinguished Lecture Series, US Securities and Exchange Commission Online Publication, <http://www.sec.gov/news/qualrpt.htm>, USA.

MacDonald, E. (1998), "*Fixing Tower of Babel in Global Accounting*", Wall Street Journal, Dow Jones & Company, May 11.

Nobes, C. and Parker, R. (1998), Comparative International Accounting, 5th ed., Prentice Hall Europe, UK.

Parker, C. (1997), "*Looking for Harmony: The Australian Approach*", The Australian Accountant, Vol. 67 No.4, May pp.44-47.

Ravlic, T. (1999), "*The Standards Revolution: The View From the AARF*", The Journal of the Australian Society of Certified Practicing Accountants, Vol. 69 No.3, April pp.32-33.

Ravlic, T. (1999), "*Big picture' man – the view from the IASC*", The Journal of the Australian Society of Certified Practicing Accountants, Vol. 69 No.6, July pp.40-41.

The Economist, (1998), Pocket World in Figures, 1998 ed., Profile Books Ltd., London, UK.