The Institutional Environment of Financial Reporting Regulation in ASEAN

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Abstract: The growth of regional trading blocs and economic alliances such as the European Union (EU) and the North American Free Trade Agreement (NAFTA), has served to magnify interest in cross-national aspects of financial reporting regulation. While most of the extant literature has looked at developed industrialized countries, this article focuses on the principal features of the institutional environment for financial reporting in an economic bloc of developing countries—the Association of Southeast Asian Nations (ASEAN). These countries are currently the subject of much attention due to the Asian economic crisis. The article has several objectives. First, it highlights the principal features of the institutional structure of financial reporting regulation in ASEAN countries. Second, it helps understand how these features impact on and are affected by several issues, particularly the limits of private sector participation in regulatory affairs, and the need to improve the enforcement in these countries. Finally, it also studies the international dimensions of financial reporting regulation in ASEAN and considers whether ASEAN’s institutional arrangements provide an auspicious environment in which to pursue accounting harmonization.

Most of the existing research dealing with financial reporting institutions has focused on the industrialized countries of North America and Western Europe. Research on other geographic regions has been sparse. This article studies the institutional environment of financial reporting regulation (accounting standard-setting and enforcement) in the ASEAN. Formed in 1967, one of the group’s principal objectives is to create a robust economic alliance in the Southeast Asian region. The article focuses on the five charter members of the ASEAN—Indonesia, Malaysia, the Philippines, Singapore, and Thailand—because these countries have more developed accounting and regulatory institutions that lend themselves to examination. Brunei, Vietnam, Laos, and Burma, countries that were admitted to the ASEAN in the 1980s and 1990s, have yet to establish institutional and regulatory frameworks for their capital markets. The article discusses
the domestic and international context of financial reporting regulation in the ASEAN because they affect and are affected by the institutions in these countries. At the domestic level, the article examines the roles played by government agencies and private sector agencies in regulating financial reporting practices in an effort to provide insights into how the broad aims expressed in legislation are translated into regulation. The article also relates the study of ASEAN’s institutional environment to two key policy issues, specifically: the factors that hamper the participation of private sector agencies in the development of financial reporting and current limitations in the effectiveness of enforcement mechanisms in each country.

In view of the growing global momentum towards accounting harmonization, we also examine the extent to which international developments in accounting regulation have influenced policy-making in the ASEAN. In particular, we examine the role of the ASEAN Federation of Accountants (AFA) as the sole advocate of accounting harmonization in the region and discuss AFA’s failure in convincing ASEAN policy-makers to choose regional harmonization1 over the International Accounting Standards Committee’s (IASC) global harmonization model.

The article is organized as follows. The succeeding section reviews the institutional structure of financial reporting regulation in the ASEAN, emphasizing the importance of relating institutional structures to the broad aims of financial reporting. This section studies and compares the process of formulating financial reporting standards and provides insights into the roles of private sector agencies and government bodies in each country. The second section discusses three key policy issues relating to the institutional environment of accounting regulation in the ASEAN, specifically: (1) the conditions limiting the participation of private sector bodies in regulatory affairs, (2) the need to improve the level of enforcement effectiveness in each country, and (3) the impact of regional and global trends on the development of financial reporting in the ASEAN. The last section concludes the article with a look at whether the ASEAN’s institutional arrangements have provided an auspicious environment in which to pursue accounting harmonization given the standard-setting framework in the five countries reviewed.

THE STRUCTURE OF FINANCIAL REPORTING REGULATION IN THE ASEAN

Financial reporting regulation in the ASEAN encompasses existing legislation and requirements set by various regulatory agencies. According to Choi and Mueller (1992), the broad aims of accounting in each country can be discerned, to a large extent, from existing legislation dealing with private companies, securities markets, taxation, and national economic planning matters. However, the broad aims of financial reporting expressed in legislation need to be translated into specific requirements for practical implementation. Legislation plays two important roles in shaping the institutional environment. First, laws often specify the main criterion for preparing financial reports (e.g., to provide a true and fair view). Second, they designate responsibility for administering the law to a government agency empowered to formulate rules it considers necessary to achieve the legislation’s aims. This is true to varying degrees in the five countries given that the task of realizing the broad aims of financial reporting rests on various regulatory agencies, defined here to mean government agencies and private sector
bodies involved in formulating authoritative accounting pronouncements and/or in enforcing these authoritative rules. Depending on the particular regulatory intent, different government agencies may take charge of formulating specific financial reporting requirements: company registrars for corporate governance aims; securities regulators for capital market-related aims; and taxation authorities for tax objectives. In addition, various private sector organizations in the ASEAN, including professional accounting bodies and stock exchanges, are also involved in realizing the regulatory aims. This section briefly describes the role of government agencies and private sector bodies in financial reporting.

Participants in the Regulatory Process

Government Agencies

Securities market regulators in the ASEAN have broad statutory powers to prescribe financial reporting rules. In Malaysia and Singapore, company registrars ensure that companies comply with specific disclosure requirements found in company laws. In general, company registrars do not specify additional financial reporting requirements beside those already found in company laws. Functions equivalent to a company's registrar are performed by various agencies in Indonesia, Thailand, and the Philippines. However, compared to company registrars in Malaysia and Singapore, government agencies in these three countries actively participate, usually in tandem, with private sector bodies, in formulating financial reporting requirements. Tax authorities specify accounting requirements for tax purposes and, in the case of Thailand, for financial reporting purposes as well. In addition to securities regulators, company registrars, and tax authorities, the government body in charge of licensing professional accountants also plays a crucial role in enforcing financial reporting regulations. This role is played in terms of certifying the qualifications of practitioners in accounting and/or auditing. Table 1 identifies the particular government agency responsible for implementing financial reporting rules associated with company law, securities market legislation, accounting legislation, and professional accounting legislation in each country.

Variations in company law administration are discernible among the five ASEAN countries. Indonesia’s company law is administered by the Investment Coordinating Board (BKPM), whose principal mandate is to regulate all forms of investment activities in the country. The registration function is incidental to its main objective, although the BKPM uses its statutory powers over financial reporting to monitor the nature and level of foreign ownership of Indonesian-based enterprises. In Malaysia and Singapore, the principal task of the company registrar is to maintain records of domestic companies, as stipulated by company laws. The Philippines’ Securities and Exchange Commission (SEC) monitors the securities markets and maintains records of companies according to the corporation law. In Thailand, the Ministry of Commerce is in charge of various functions, including company registration. Overall, administration of company laws is combined with other tasks in ASEAN countries, except in Malaysia and Singapore, where company administration is handled exclusively by designated company registrars.
Securities market regulation in the ASEAN is administered by a designated securities markets agency, except in Singapore where the country’s de facto central bank (Monetary Authority of Singapore or MAS) also regulates the securities markets. Notably, as well, the Philippines’ SEC is both company law administrator and securities market regulator. These securities agencies monitor whether companies prepare financial reports in accordance with securities market regulations.

Thailand is the only country among the five that has an accounting law administrator. The Ministry of Commerce—Accounts Registration Department performs functions similar to company registrars in other ASEAN countries. However, Thailand has a separate accounting law that specifies the format and content of financial statements for companies in particular industries. These requirements are simplified “accounting plans,” which assist in aggregating financial information for government purposes.

The registration and the licensing of accountants are performed by various agencies ranging from those concerned mainly with professional accountancy matters (e.g., Public Accountants Board in Singapore) to those charged with a broad portfolio of functions (e.g., Ministry of Commerce in Thailand). In Indonesia, licenses to practice accounting are issued by the Ministry of Finance, although in practice, membership in the Indonesian Institute of Accountants (IAI) is sufficient to obtain a license. In Malaysia, although the Malaysian Institute of Accountants (MIA) is the government-based licensing agency, membership in the Malaysian Association of Certified Public Accountants (MACPA) provides a way of obtaining a professional license from MIA. In the Philippines, the Board of Accountancy (a statutory body under the Professional Regulation Commission) licenses accountants, although it obtains advice from the Philippines Institute of Certified Public Accountants (PICPA) in setting its licensing examinations and continuing requirements. The Public Accountants Board (PAB) in Singapore is the government

Table 1. Key ASEAN Government Agencies in Financial Reporting Regulation

<table>
<thead>
<tr>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Singapore</th>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company law administrator</td>
<td>Investment Coordinating Board (BKPM)</td>
<td>Registrar of Companies</td>
<td>Securities and Exchange Commission</td>
<td>Registrar of Companies and Businesses</td>
</tr>
<tr>
<td>Securities market regulator</td>
<td>Capital Market Supervisory Agency (Bapepam)</td>
<td>Securities Commission</td>
<td>Securities and Exchange Commission</td>
<td>Monetary Authority of Singapore</td>
</tr>
<tr>
<td>Accounting law administrator</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Accountants registering body</td>
<td>Ministry of Finance</td>
<td>Malaysian Institute of Accountants</td>
<td>Professional Regulation Commission—Board of Accountancy</td>
<td>Public Accountants Board</td>
</tr>
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These agencies ensure compliance with the regulations and oversee the integrity of financial reporting in the ASEAN region.
<table>
<thead>
<tr>
<th>Organization</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Singapore</th>
<th>Thailand</th>
</tr>
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</table>
| Accounting Standard Setting Agency | Indonesian Institute of Accountants (IAI)
  (a)                                                                                      | Jointly—MIA and Malaysian Association of Certified Public Accountants | Accounting Standards Council
  (a)                                                                                      | Institute of Certified Public Accountants
  of Singapore                                                                                      | Institute of Certified Accountants and Auditors of Thailand
  (a)                                                                                      |
| Professional Accounting Body       | Indonesian Institute of Accountants (IAI)     | Malaysian Association of Certified Public Accountants (MACPA) | Philippine Institute of Certified Public Accountants (PICPA) | Institute of Certified Public Accountants of Singapore (ICPAS) | Institute of Certified Accountants and Auditors of Thailand (ICAAT) |
| Private Sector Body Involved in Standard-Setting | Indonesian Chamber of Commerce and Industry (KADIN) | Malaysian Chamber of Commerce and Industry | Financial Executives Institute of the Philippines (FINEX) | Singapore Federation of Chambers of Commerce and Industry | Thai Chamber of Commerce                        |
| Audit Standard-Setting             | Indonesian Institute of Accountants (IAI)     | Joint MIA and MACPA                           | Auditing Standards and Practices Council
  (ASPC)                                                                                      | Institute of Certified Public Accountants of Singapore (ICPAS)         | Institute of Certified Accountants and Auditors of Thailand (ICAAT) |

Note: *(a)* Requires co-approval by government agency, viz: Indonesia (Bapepam); Philippines (Board of Accountancy); Thailand (Ministry of Commerce).
body that licenses practicing accountants. In Thailand, the Ministry of Commerce—Board of Supervision of Audit Practice (BSAP) licenses accountants, while the Institute of Certified Accountants and Auditors of Thailand (ICAAT) plays an advisory role to the Ministry of Commerce.

**Private Sector Organizations**

Table 2 lists the private sector organizations involved in financial reporting regulation in the ASEAN. The organizations presented are those in charge of: (1) accounting standard-setting, (2) stock exchanges, (3) registered accountants, (4) users/preparers (in relation to corporate financial reporting matters), (5) audit standard-setting.

Accounting standards are promulgated by professional accounting bodies in Indonesia, Malaysia, Singapore, and Thailand. However, in the Philippines, accounting standards are set by a private sector body with representatives from outside of the accounting profession (e.g., from the Financial Executives Institute of the Philippines) and can therefore be described as following a “mixed private sector” approach.

A similar pattern is observed in regard to the establishing of auditing standards. Professional bodies figure prominently in setting auditing standards in Indonesia, Singapore, and Thailand. However, in the Philippines, such standards are set by the Auditing Standards and Practices Council (ASPC), a joint private sector–government body. While in Malaysia, auditing standards are promulgated jointly by MIA (government) and MACPA (private sector).

Stock exchanges also participate in regulating financial reporting practices. They promulgate listing requirements for companies seeking to have their securities traded in the exchange. Stock exchange administrators also monitor whether listed companies comply with continuing reporting requirements after such companies have been qualified to list their securities in the exchange.

In comparison with more developed equity-oriented capital markets such as those in the US and UK, the participation of users and preparers of financial statements in the ASEAN financial reporting is less formal. In most ASEAN countries, national chambers of commerce and industry provide comments regarding proposed financial accounting regulations. It is only in the Philippines where the participation of preparers of financial statements in standard-setting activities is formalized. The Financial Executives Institute of the Philippines (FINEX), a private sector body comprising of chief financial officers of companies, is represented in the Accounting Standards Council (ASC), the designated standard-setting agency.

**Accounting Standard-Setting: Arrangements and Processes**

After briefly describing the role of various ASEAN government agencies and private sector bodies in financial reporting regulation, this section provides an overview of the institutional process and arrangements for setting accounting standards in these five countries. Accounting standard-setting is defined here as the process by which rules on account measurement and disclosure (financial and non-financial) are specified. The purpose of accounting standards is to assist in carrying out the intention of various
company, tax, and economic planning legislation. For example, where company laws in
the ASEAN prescribe the preparation of general purpose reports, accounting standards
define, in fairly specific terms, what should be contained in the reports and how accounts
ought to be measured. The distinctive features of standard-setting in ASEAN countries are
analyzed here in terms of the authority to set standards, sources of domestic standards,
internal structure of standard-setting agency, due process requirements, and influence of
government and other private sector groups.

Authority to Promulgate Accounting Standards

Accounting standard-setting in the ASEAN is characterized by a visible, often
dominant, role played by professional accounting bodies. This characteristic reflects a
relatively high degree of professionalization consistent with a micro-user-oriented
accounting system (Gray, 1988). That is, where accounting standards are professionally
derived, such standards offer a wider latitude in the exercise of individual judgment
compared to a regulatory regime characterized by government-mandated rules.4

Starting in the 1960s, there was a shift in Indonesia from Dutch accounting to US
accounting.5 In Indonesia, IAI first promulgated a set of accounting principles, Indonesian
Accounting Principles (Prinsip Akuntansi Indonesia) in 1973 in response to government
calls to revive the domestic securities market. These standards were revised in 1984 and
have been replaced when IAI issued Indonesian Financial Accounting Standards (IFAS)
in 1994.

In 1972, MACPA issued Malaysia’s earliest accounting pronouncements, called
Recommendations on the Presentation of Accounts. MACPA’s official aim was to help
ensure that financial reports meet the requirements of the Malaysian Companies Act 1965.
MACPA also published a so-called Specimen Accounts in 1976 to supplement the
guidelines issued earlier. In 1977, MACPA began issuing Approved Accounting Standards
based on IAS and Malaysian Accounting Standards (MAS).6

In the Philippines, PICPA has issued Accounting Principles Board Opinions (APBs)
(Accounting Principles Board (APB), 1970) and Special Bulletins (SBs) on specific
accounting issues since the early 1970s to provide recommended guidelines on financial
reporting.7 Since 1981, the ASC has exercised standard-setting functions. It has also issued
Statements of Financial Accounting Standards (SFAS) that are mandatory for all CPAs.

In Singapore, ICPAS has been at the forefront of standard-setting activities, issuing a
Statement of Recommended Accounting Practice in 1970. This statement provides
guidance to companies on complying with the disclosure requirements found in the
Singapore Companies Act 1967. In 1977, ICPAS began issuing Statements of Accounting
Standards (SAS), which are mandatory, and Recommended Accounting Practices (RAP),
which are voluntary.

Thailand’s ICAAT has issued Recommended Accounting Concepts and Principles
(1972), which discusses the fundamental bases for preparing financial statements. Since
1979, ICAAT has also promulgated Thai Financial Accounting Standards (TFAS), which
addressed specific accounting areas.

While professional accounting bodies are active in standard-setting, most do not receive
direct statutory support for their standard-setting activities. The exception is in Indonesia,
where IFAS receive legislative backing through the *Capital Market Law (1995)*. This law requires companies to comply with accounting standards promulgated by IAI, although government agencies such as Bapepam and Bank Indonesia must approve such standards. In the other countries, professional accounting standards are imposed directly on registered auditors or members of the professional body, but not on reporting entities. In Malaysia, AAS and MAS are mandatory on all registered accountants by virtue of the *Accountants Act (1967)* and *Rules (1972)*. In the Philippines, SFAS are mandatory on all accountants through the *Revised Accountancy Law (1975)*. In Singapore, ICPAS’ rules require its members to ensure compliance with SAS.8 While SAS are not mandatory on companies, ICPAS (1994) has indicated that compliance with these standards is necessary for financial statements to provide a *true and fair view*, in accordance with the Singapore *Companies Act*. In Thailand, ICAAT’s standards are mandatory only on its members.9 ICAAT (1993) has stated, however, that following TFAS is necessary to achieve compliance with the Ministry of Commerce rules.

**Sources of Domestic Accounting Standards**

Contemporary accounting standards in the ASEAN draw heavily from foreign sources, mainly UK, US, and IASC standards. The earliest Indonesian Accounting Principles (PAI) are based on Grady’s (1965) *Inventory of GAAP for Business Enterprises*. In 1984, the PAI were revised slightly to incorporate some Indonesian business concepts. In addition, between 1987 to 1991, several statements of accounting principles that drew upon US accounting treatments were issued in Indonesia. Finally, in September 1994, Indonesia adopted 21 International Accounting Standards (IAS), renamed “Indonesian Financial Accounting Standards” and made them mandatory for all publicly listed companies.

Accounting standards in the Philippines and Thailand also draw heavily from US accounting sources. Philippine accounting standards follow treatments recommended by the US standard-setting bodies (SGV and Andersen, 1983). Thailand’s *Recommended Accounting Concepts and Principles* are based generally on US GAAP, although they also incorporate concepts from the UK and Germany (especially the concept of *prudence*). In the 1980s, however, the Philippines began to develop domestic standards based on the pronouncements of the US. While Thailand continues to draw upon US pronouncements, it also gradually began to adopt IAS promulgated by the IASC. Currently, 17 of 23 Thai accounting standards are based on the IAS.

Malaysia and Singapore have historically looked to the UK in setting their domestic accounting standards. After the IASC’s formation in 1973, Malaysia and Singapore have been the two earliest countries in the ASEAN to adopt IASC standards. Both announced their support for the IASC’s efforts in the mid-1970s, unlike Thailand’s ICAAT, which adopted the *content* of some international standards but did not explicitly announce its support for the IASC. In Malaysia, most IAS are adopted as Approved Accounting Standards. In Singapore, adopted IAS are referred to as SAS. Each country prefaces the pertinent IASC standards with some guidelines on their application to domestic circumstances. Overall, the recent trend in the ASEAN is towards the adoption of the IASC standards. Malaysia, Singapore, and Thailand are among the earliest adopters of IASC.
standards. In Indonesia, Bapepam, the country’s securities market agency, has encouraged the move towards IAS.

Structure of the Standard-Setting Agency

Standard-setting agencies in the ASEAN are generally dominated by professional accountants. In Indonesia, the IAI’s Commission on Accounting Principles, which prepares the recommended accounting standards for consideration by the IAI Council, has seven members from public practice, government, commerce and industry, and education, all of whom must be IAI members. Similar arrangements exist in Malaysia, Singapore, and Thailand, where a particular committee of the professional body takes charge of preparing proposed accounting standards. These committees generally comprise representatives from public practice, government, commerce and industry, and education, all of whom must be members of the professional accounting body. The Singaporean and Thai structure are more formal. In Singapore, the ICPAS Council consists of eight members from public practice and eight members from other areas (e.g. commerce, industry, education) and three members appointed by the Minister of Finance. In Thailand, the ICAAT Sub-Committee consists of 15 members from public practice, commerce and industry, the government (Ministry of Commerce), and major Thai universities. The Philippine’s ASC has eight members from the Board of Accountancy, the SEC, Bangko Sentral ng Pilipinas (i.e., Central Bank), and FINEX, who do not necessarily have to be members of PICPA. However, four of the posts, including the Chair, are reserved for PICPA representatives, thus ensuring a predominant influence by the accounting profession.

Adherence to Due Process

Another common feature of accounting standard-setting in ASEAN countries is the observance of some notion of due process, apparent, for example, in the need to release proposed standards for public comment and to consult with various constituents in government and the private sector. Due process is aimed at fostering acceptance of professional standards, although steps followed in each country vary in their degree of formality and the extent to which government agencies participate in the process.

In Indonesia, the IAI’s Commission on Accounting Principles (CAP) circulates draft accounting standards among IAI members, selected government agencies (i.e., Bapepam, Bank Indonesia, Investment Coordinating Board, Ministry of Finance, Directorate of Taxation), and company representatives (Indonesian Chamber of Commerce) for comment. The exposure period (no less than 6 months) allows CAP to revise the draft based on comments received. The revised draft is then endorsed by CAP to the IAI board of directors whose approval makes the standards mandatory for all IAI members.

The standard-setting process in Singapore is similarly straightforward. ICPAS’ Accounting Standards Committee, whose members are appointed by the Institute’s Council, examines current IAS to determine their relevance to Singapore. If deemed suitable, the Committee distributes the IAS for comment to various government and private sector
organizations including the Stock Exchange of Singapore (SES), the Association of Banks of Singapore, and the Chambers of Commerce. Modifications to IAS are made by the Committee using the comments received, as well as various legal and regulatory considerations. The revised standard is sent to the ICPAS Council for approval, which is not automatic. For example, the Council demurred approval of IAS 4 and 25 (Han, 1994) and has not adopted IAS 6, 15, and 29.

Standard-setting in Malaysia is slightly more complex because consensus of two accounting bodies is needed. The joint committee of MIA and MACPA determines whether a particular IAS is suitable and what changes, if any, are warranted. In comparison, MAS are drafted after the technical committees of both organizations have identified a specific area of accounting (e.g., aquaculture, insurance) requiring an accounting standard that is not addressed by an existing IAS. Proposed IAS-based accounting standards and MAS are circulated to members of both bodies, pertinent government agencies, and private sector groups, with the exposure period generally lasting 6 months. The proposed standards are revised based on responses received. Standards are then approved by the respective Councils of MIA and MACPA and issued as approved accounting standards, to be implemented 6 months from the approval date.

Standard-setting in Thailand is broadly similar to that adopted in Indonesia, Malaysia, and Singapore, with one important difference: formal approval is required from the Ministry of Commerce BSAP for all accounting standards. In the process of preparing standards, drafts are sent to ICAAT members and presented in public seminars or hearings. In addition, questionnaires are sent to individuals occupying senior positions in public practice, government, commerce, industry, and academia, who are selected by the Sub-committee on Accounting Principles. Changes are made in response to feedback received. The revised draft standard is then presented to the ICAAT Board of Directors and Ministry of Commerce for approval, whereupon the Thai Financial Accounting Standards become binding on registered auditors.

In the Philippines, the government formally approves new standards, too. However, the approval process is more elaborate. The ASC first establishes a project committee to determine whether an accounting standard in a particular area is needed. If so, the project committee prepares a draft accounting standard. A draft approved by at least five of the eight ASC members is then released officially to PICPA members, FINEX members, pertinent government agencies and interested parties in commerce and industry for comment. After a 60-day exposure period, responses are evaluated by the project committee and changes made, if necessary. If a majority of ASC members approve the revised draft, it is issued as a formal accounting standard; otherwise, a review process is initiated. The ASC-approved standard is submitted to the Board of Accountancy for endorsement and then to the PRC for approval, usually a formality. Once approved by the government, the standard becomes effective for all licensed accountants.

Overall, arrangements in the ASEAN appear to be rudimentary and far less complex than those found in industrialized Western countries. Accounting standards, in general, are adopted on the strength of the professional bodies’ recommendations. The intense lobbying and contention over proposed standards, increasingly experienced in the US and other industrialized countries, is rare in the ASEAN.
LIMITATIONS OF AND PROSPECTS FOR THE INSTITUTIONAL ENVIRONMENT OF FINANCIAL REPORTING REGULATION IN THE ASEAN

After describing the key characteristics and processes of financial reporting regulation in the ASEAN, this section discusses the impact of government agencies and private sector bodies, within and outside of the ASEAN, on the development of financial reporting in these countries. Some of the policy implications of the interaction between government and private sector are highlighted. This section also highlights the need to improve the system of enforcement in the ASEAN to bolster the quality of financial reporting in these countries. This need for better enforcement and greater transparency in financial reporting has been driven home by the failure of many large companies and financial institutions in a number of ASEAN countries during the recent Asian economic crisis.

Factors Limiting Private Sector Participation

The relative degree of influence of government agencies and private sector bodies on a country’s financial reporting institutional environment can be summarized in terms of one of four predominant approaches to regulation: (1) legalistic; (2) hybrid; (3) professional; and (4) market (Puxty et al., 1987). A legalistic approach means that the government’s influence over financial reporting is paramount. This contrasts with the professional approach where the professional accountants set the pace for regulation. A hybrid approach is characterized by roughly equal participation by government and private sector in regulation, while market means that firms are generally free to select whatever financial reporting practices best suit their needs. Following this method of classification, the accounting standard-setting arrangements in Indonesia, Malaysia, Singapore, and Thailand may be described as adopting a professional approach, while that in the Philippines uses a hybrid approach.

While these categories draw attention to the predominant and official regulatory approach adopted in each country, they do not adequately capture the complex structure of domestic standard-setting arrangements (e.g., Puxty et al., 1987; Bloom and Naciri, 1989; Gorelik, 1994). For example, McKinnon and Harrison’s (1985) study of Japanese corporate financial reporting regulation stressed the importance of informal consultative arrangements between government agencies and private sector bodies. This dimension of regulation is not reflected in the broad approaches listed above. Moreover, evidence in Western industrialized countries shows that the potential for government takeover of the regulatory process often strongly influences the deliberation and outcome of private sector regulatory processes (Johnson and Solomons, 1984; Dyckman, 1988; Gorelik, 1994).

Two factors appear to be significant in encouraging the active participation of private sector agencies in accounting regulation. The first is a government policy supportive of innovation in financial reporting and characterized by the absence of rigid measurement and disclosure rules. The second is the presence of well-organized private sector bodies capable of formulating and implementing financial reporting rules. However, the evidence to support these conditions is mixed among the five ASEAN countries studied.
On one hand, while most ASEAN governments have refrained from imposing uniform reporting requirements, they have nonetheless exercised a relatively high degree of control over disclosure practices in their respective jurisdictions. In Indonesia, Bapepam\textsuperscript{13} is involved strongly in disclosure regulation. Since 1987, it has issued Directives Regarding the Form and Content of Financial Statements of Indonesian Listed Companies, which are mandatory on all listed companies.\textsuperscript{14} Bapepam’s influence is evident in that it requires companies to prepare financial statements in accordance with IFAS and requires that an audit be conducted by a Bapepam-registered accountant. Bapepam’s statutory powers have been further strengthened by the Capital Markets Law 1995, although the agency has so far delegated the task of formulating accounting standards to the IAI. Bapepam accepted IAI’s promulgation of IFAS in 1994 and made them mandatory for all publicly listed companies in 1995. Other government agencies, which have lent support to IAI standards, are the Directorate General of Taxation and Bank Indonesia, which generally require companies under their jurisdiction to use IFAS. Moreover, reports submitted to these agencies must be audited by public accountants registered with the Ministry of Finance. Pertamina, the state petroleum agency, is the sole exception. It regulates all aspects of the oil and gas industry in Indonesia, and prescribes reporting requirements for the industry independent of the IAI and other government agencies.

In Malaysia, government agencies are generally supportive of the efforts of the profession. The government Capital Issues Committee (CIC), which regulated securities offerings prior to 1992, generally required companies to comply with MIA/MACPA accounting standards. Subsequently, the Malaysian Securities Commission, established in 1992, endorsed the use of MIA/MACPA accounting standards by companies under its jurisdiction. It has also issued its own disclosure requirements for companies listed on the stock exchange. The Kuala Lumpur Stock Exchange, while not strictly a government body, requires listed companies to comply with accounting standards issued by MIA/MACPA and requirements of the Malaysian Companies Act. Other government agencies that recognize professionally-derived accounting standards include Bank Negara Malaysia (Central Bank) and the Directorate General on Insurance. Bank Negara Malaysia issues its own set of financial reporting rules for banks and financial institutions, in accordance with the Malaysian Banking Act 1973.

The general level of support of private sector initiatives is likewise high in the Philippines where official endorsement is given to SFAS by the Board of Accountancy and PRC. The SEC and the Central Bank also require companies to comply with SFAS and to undergo an audit by a licensed CPA. The Philippine SEC, modeled on its US counterpart, plays a strong role in defining financial reporting regulation. Similar to Indonesia, the Philippine SEC issues its own regulations, which are based on the US SEC Regulation S–X. Though the SEC allows the ASC to formulate accounting principles, which should be adhered to in all financial reports submitted to the SEC, it has reserved the right to impose additional financial reporting requirements.\textsuperscript{15} The Central Bank has participated in formulating GAAP for the banking industry, together with representatives from the ASC and the Bankers Association of the Philippines. Nonetheless, the Central Bank also issues its own set of Regulatory Accounting Policies, which are to be complied with in all submissions to it. In practice, differences between SFAS and Regulatory Accounting Policies have been minimized through a joint task force between the ASC and the Central Bank.
In Singapore, government influence on financial reporting and support of professional accounting initiatives is directly evident in legislation and, indirectly, through audit requirements. The 1990 amendments to the Ninth Schedule of the *Singapore Companies Act* have incorporated directly most of the accounting standards and recommended accounting practices issued by ICPAS. In addition, government agencies such as the Registrar of Companies and Businesses and the MAS require companies to be audited by a licensed CPA. Apart from ICPAS, several state and private sector organizations have also developed standards applicable to companies under their jurisdiction. The MAS, based on its mandate under the *Banking Act* and the *Securities Industry Act*, has specified disclosure requirements for financial institutions and companies issuing their own securities to the public. The SES also issues its own *Listing Manual* and *Disclosure Policy Guidelines* containing requirements beyond those specified by the *Companies Act*.

Of the five ASEAN countries, the Thai government exercises a significantly more interventionist role in regulating financial reporting. Thailand is the only ASEAN country that has promulgated *Accounting Acts* to regulate financial reporting practices. In 1976, the Ministry of Commerce issued regulations, which provide uniform formats and a detailed list of disclosures for companies. The Thai Internal Revenue Department also exercises strong influence on accounting practice by requiring companies to use the same accounting policies for financial and tax reporting purposes. Thus, deliberations on proposed accounting standards always take into consideration the potential tax effect on companies. Moreover, the opinion of the tax department is sought specifically before accounting standards are approved. Other agencies that influence financial reporting practices are the Thai SEC, Stock Exchange of Thailand (SET), and the Bank of Thailand. The Thai SEC (established 1993), similar to its counterparts in Indonesia, Malaysia, and the Philippines, has the authority to promulgate financial reporting rules for public companies. So far, it has delegated this task to ICAAT and the SET. The SET imposes comprehensive disclosure requirements on listed companies. While these requirements exceed those prescribed by the Ministry of Commerce and ICAAT, they do not deal specifically with accounting measurement issues. Finally, the Bank of Thailand (Central Bank) sets disclosure and measurement rules applicable to banks and financial institutions.

Overall, government agencies appear to have been reluctant to specify accounting measurement rules. However, these agencies actively prescribe disclosure rules. Stock exchange administrators have been given quasi-regulatory status. As such, they also prescribe disclosure requirements. Central banks in the ASEAN provide account measurement rules for banks and financial institutions under their jurisdiction. The Indonesian state petroleum agency, Pertamina, promulgates its own rules for companies in the oil and gas industry. Finally, Thailand’s tax authority has influenced accounting practices in the country. These exceptions suggest that government agencies are more likely to regulate measurement practices in specialized industries or in situations where tax considerations are paramount.

Another condition that partially precludes private sector bodies from fully participating in regulatory affairs is the limited government support they receive. While the participation of the private sector in the ASEAN financial reporting regulation is bolstered by the presence of a duly recognized professional accounting body in each country, the level of influence exerted by such bodies differs significantly (Morse, 1993), and depends largely
on the relative prestige and political clout of the accounting profession. Other factors affecting the profession’s ability to influence regulatory matters include the professional body’s degree of organization, the profile of its members, and the government’s attitude towards the accounting profession. Some characteristics of ASEAN professional accounting bodies pertinent to explaining their level of influence in standard-setting are presented in Table 3.

Most of the professional bodies in the ASEAN (apart from in Thailand) were established during the post-war, post-colonial era of each country. The exception is PICPA in the Philippines, an agency established during the period of US colonization and which continued to operate well into the post-colonial era. The longevity of these organizations suggests their success in attaining institutional legitimacy (Johnson and Solomons, 1984; Gorelik, 1994). However, membership sizes are small relative to populations, except in Singapore and the Philippines. Differences in size could indicate the vocational appeal enjoyed by the accounting profession and the relative difficulty in obtaining professional certification.

The level of government support for the professional body can also be gauged by whether government rules require practicing accountants to be members of the professional organization. Malaysia and Thailand differ from the other countries in this regard. In Malaysia, the government-backed professional body (MIA) licenses accountants. Practitioners, therefore, have to be members of MIA, but not necessarily of MACPA.16 In Thailand, accountants need only to be licensed by the BSAP to exercise their profession. Notably, the status of the accounting profession in Thailand parallels closely that of some countries in Continental Europe (e.g., Germany, Belgium) and Northeast Asia (e.g., Japan, South Korea), where the professional body plays a relatively minor role in financial reporting regulation. Despite these limitations in the strength of private sector bodies in the ASEAN, consultations between private sector bodies and government agencies, whether official or unofficial, still occur frequently. In Thailand, while ICAAT sets accounting standards, government officials form a significant bloc of the committee, which studies and proposes new accounting standards. In Indonesia, Malaysia, and Singapore, consultations are built into the exposure period for draft standards or in the preparation of accounting standards related to specific industries such as banking and

### Table 3. Profile of Professional Accounting Bodies in the ASEAN

<table>
<thead>
<tr>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Singapore</th>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAI</td>
<td>MACPA</td>
<td>PICPA</td>
<td>ICPAS</td>
<td>ICAAT</td>
</tr>
<tr>
<td>Year</td>
<td>1959</td>
<td>1958</td>
<td>1929</td>
<td>1963</td>
</tr>
<tr>
<td>Membership</td>
<td>4,500</td>
<td>2,067</td>
<td>21,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Membership required for practice</td>
<td>Yes</td>
<td>No b</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Notes:  
16IFAC membership statistics.  
16In Malaysia, an accountant has to be a member of MIA (government licensing body) in order to practice. In Thailand, there is no government requirement for an accountant to be a member of ICAAT.
insurance. In some cases, the government agency “prompts” or “encourages” the professional body to develop appropriate standards to address a perceived need. An example of this is Bank Indonesia’s sponsorship of standard-setting activities by the IAI as part of the Indonesian government’s capital market development initiative from 1970–1975. Government agencies retain veto power over professional accounting standards, which while not being exercised directly, could be decisive in determining the outcome of accounting deliberations.

The role of other private sector groups in accounting standard-setting, particularly preparers of financial statements and user groups, appears minimal. However, it would be incorrect to conclude that these groups do not influence standard-setting activities. The consultative process adopted by professional bodies is designed, in part, to accommodate the concerns of the business community. For this reason, drafts are often sent to national chambers of commerce and industry groups. The case for business consultation is particularly strong in Thailand where accounting standards have direct tax implications for companies. The other route by which preparers of financial statements could influence standard-setting outcomes, albeit indirectly, are through representations made by public accountants who, in view of their association with their clients, are aware of the likely impact of new accounting standards on companies.

In order to formally include the various constituents that are affected by the financial reporting regime, a possible next step in the development of institutional mechanisms relating to financial reporting in ASEAN might be to adopt a hybrid approach wherein the independent regulatory body includes members of the private sector and government in it. Only the Philippines has taken steps toward this direction, whereby the ASC includes representatives from key government agencies, the accounting profession, and corporations. This agency, however, is still seen largely as being dominated by the accounting profession. One variation of this institutional approach is that adopted in the US where the private standard-setter, the FASB, includes full-time appointed members with public accounting, industry, and academic backgrounds. Another approach would be the Dutch Council for Annual Reporting (Raad voor de Jaarverslaggeving), which includes representatives from employer groups, employees, accounting professionals, and financial statement users. It is important that the approach ultimately adopted by individual ASEAN countries be based on a careful consideration of each country’s political, economic, and socio-cultural circumstances.

Effectiveness of Enforcement and Quality of Financial Reporting

Another key policy issue in the ASEAN’s financial reporting environment is the level of effective enforcement in these countries. The credibility of professional accounting bodies as standard-setters could be tarnished irreparably if companies resist or do not comply with standards set by the profession (Johnson and Solomons, 1984; Gorelik, 1994). However, the evidence supporting the effectiveness of enforcement in the ASEAN indicates an acute need to improve current levels of compliance in most member countries. Financial reporting regulations can be enforced using a combination of preventive (ex ante) and punitive (ex post) methods. Responsibility for enforcement could also be predominant in the public sector or private sector. These variations in
ASEAN countries are evident in Table 4. Commonalties are exhibited in requiring audits by licensed auditors only; requiring an examination and work experience for all auditors; requiring continuing professional education for accountants; imposing penalties on auditors and companies for violation of legislation or standards; and delisting securities of companies for non-compliance.

Differences are apparent in that an independent government review of auditors’ performance is adopted only in Singapore and Thailand. In Singapore, the PAB reviews auditors’ compliance with provisions of the *Accountants Act*. In Thailand, the BSAP regularly evaluates the performance of auditors. In terms of corporate governance structures, Indonesia requires a supervising board of non-executives to oversee the board of directors. Moreover, Indonesia, Singapore, and Thailand all have laws that require companies to submit clean audit reports before issuing securities to the public. In general,

<table>
<thead>
<tr>
<th>Type of method</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Singapore</th>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preventive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Audits by government-certified auditors</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>(b) Government licensing of auditors</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>(c) Continuing professional education requirements</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>(d) Periodic government review of audit function</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>(e) Supervisory boards for companies</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>(f) Audit committee requirements</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>(g) Legal requirement for adequate internal controls</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>(h) Securities market rules requiring unqualified audit report</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Punitive

| (a) Prosecution of auditors                         | No        | No       | No          | Yes       | No       |
| (b) Censure or suspension of licensed auditors      | No        | Yes      | Yes         | Yes       | Yes      |
| (c) Prosecution of company officers of directors    | Yes       | Yes      | Yes         | Yes       | Yes      |
| (d) Fines or penalties imposed on company or its officers for reporting violations | Yes | Yes | Yes | Yes | Yes |
| (e) Suspension or delisting from securities markets  | Yes       | Yes      | Yes         | Yes       | Yes      |
| (f) “Watch lists” of violating companies            | No        | Yes      | No          | Yes       | No       |

Sources: ASEAN Company and Securities Legislation; ASEAN Stock Exchange Regulations; discussions with ASEAN accounting practitioners.

Table 4. Enforcement Methods Adopted in the ASEAN
Singapore has a more elaborate approach to prevention, requiring listed companies to form an audit committee (composed mainly of non-executive directors) and ensuring that an adequate system of internal controls exists.

Incidents of punitive measures being applied in the ASEAN are infrequent. Apart from Singapore, there have been no cases of judicial actions against auditors. In Singapore, the publicly listed Pan Electric collapsed in the mid-1980s and auditors were sued by its receivers. Instances of penalties imposed on companies for violating legislation have occurred occasionally in the ASEAN. These penalties are often imposed by the securities regulator or the stock exchange on companies that fail to provide adequate disclosures in accordance with existing regulations.

In terms of enforcement responsibility, varying degrees of emphasis exist on self-regulation by professional accounting bodies. Self-regulation appears to be most highly developed in Malaysia, Singapore, and the Philippines where professional accounting bodies have their own disciplinary and investigative arms to deal with possible violations of accounting and auditing standards by members. A comparable concept of self-regulation has yet to develop in Indonesia and Thailand where the onus is on government agencies to pursue possible violations of accountancy laws. This is particularly so in Thailand where less than 50 percent of certified accountants and auditors are members of ICAAT. Also, the professional accounting bodies in Malaysia and Singapore appear to be more concerned with reviewing the financial reporting behavior of companies; they have a Financial Statements Review Committee, which annually reviews a sample of company annual reports for compliance with legislation and accounting standards. Departures from standards are brought to the attention of the auditors and executive officers of companies. Violating companies are placed on a watch list and monitored carefully in subsequent periods.

The structure of regulation in developing countries has many general weaknesses in terms of compliance. The World Bank (1989, p. 90) observed that “in developing countries, accounting and auditing practices are sometimes weak, and financial laws and regulations do not demand accurate and timely reports.” Given the diversity of conditions in developing countries, the primary interest here is to determine the extent to which these views appropriately describe conditions in individual ASEAN countries.

Evidence regarding the strength of enforcement in the ASEAN is anecdotal and generally reveals differences in perceived or actual effectiveness of regulation. Euromoney (1993) canvassed the views of global investors regarding the perceived quality of the financial accounting systems in developing capital markets, which are rated from 1 (lowest quality) to 10 (highest quality). The results for the ASEAN (excluding Singapore) were as follows: Malaysia (9.17), Thailand (7.14), Philippines (5.33), and Indonesia (5.00).

Table 5 summarizes findings of studies conducted by the International Finance Corporation (1994), the private sector financing arm of the World Bank, and the Asian Development Bank (1995) on the perceived quality of accounting regulations in ASEAN. The IFC assessments did not define the categories of “good,” “adequate,” and “poor.” However, only Malaysia rated good in terms of accounting standards, investor protection, and effectiveness of securities regulators. Indonesia rated poor in terms of accounting standards, partly because it had not adopted a comprehensive set of accounting standards by 1993 when the survey was conducted. The Philippines was classified as having good accounting standards while Thailand was rated as having
adequate accounting standards, although the basis for such determinations was not clear. The study implied the need for substantial improvement in Indonesia, Thailand, and the Philippines in implementing accounting standards. This view was reinforced by the study by ADB (1995), which identified problems relating to disclosure adequacy and reliability in Indonesia and the Philippines. In Thailand, disclosure quality was perceived to have improved after the government implemented regulatory reforms to relieve the financial distress suffered by some listed companies in the 1980s. The ADB provided further information on the state of accounting in Indonesia and the Philippines (no information was provided on Malaysia and Thailand). With regard to Indonesia, the ADB observed that:

Present corporate and tax laws in Indonesia require that adequate financial records be kept, but do not impose accounting requirements and standards to ensure financial disclosure. (1995, p. 227)

Table 5. IFC and ADB Assessments of Financial Reporting Regulation in the ASEAN

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFC</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Accounting standards</td>
<td>Poor</td>
<td>Good</td>
<td>Good</td>
<td>Adequate</td>
</tr>
<tr>
<td>• Investor protection</td>
<td>Adequate</td>
<td>Good</td>
<td>Adequate</td>
<td>Adequate</td>
</tr>
<tr>
<td>• Securities regulator</td>
<td>Adequate</td>
<td>Good</td>
<td>Adequate</td>
<td>Adequate</td>
</tr>
<tr>
<td>ADB</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Investor protection</td>
<td>Credit rating agencies exist; small capital markets reduce role of securities and exchange supervision.</td>
<td>Credit rating agencies exist; fairly strong and effective securities and exchange supervision.</td>
<td>Credit rating agencies exist; securities and exchange supervision active in recent years.</td>
<td>Credit rating agencies exist; securities and exchange supervision vigilant and active.</td>
</tr>
<tr>
<td>• Information disclosure</td>
<td>Problems with disclosure and solvency of government banks.</td>
<td>Rules much improved recently but still inadequate.</td>
<td>Some problems with disclosure and insolvency of government banks; rules need improvement.</td>
<td>Disclosure much improved in recent years after some insolvency episodes.</td>
</tr>
<tr>
<td>• Legal and accounting framework</td>
<td>Weak framework; limited recent attempts at improvement.</td>
<td>Technically adequate and developed; quite effective in exercising controls.</td>
<td>Relatively sophisticated systems; overly active legal system sometimes an impediment.</td>
<td>Reasonably developed; weaknesses in the legal framework.</td>
</tr>
</tbody>
</table>

In the Philippines, it noted that

Auditors certify the accuracy of the accounting information and methods used, not necessarily the veracity of the information ... much depends on the willingness of the firm to disclose pertinent information about itself and the project ... audited financial statements are as good as the amount and quality of information provided by the firm.

In this environment, the problem of asymmetric information persists. (1995, p. 227)

The observation made with regard to the Philippines also applies to Indonesia, Malaysia, and Thailand, where cultural attitudes pose barriers to full disclosure of the reporting entity’s affairs. In Singapore, the overall level of compliance is considered high although ICPAS declined to disclose details of compliance rates. Unless resolved through more effective regulatory measures, these differences in enforcement effectiveness will continue to hamper the quality of financial reporting among the five countries.

International Dimensions of Accounting Regulation in the ASEAN

A third policy aspect of the institutional environment for financial reporting in the ASEAN is the increasingly visible impact of external developments on domestic matters. One key issue is whether each country should be aligned with a regional or global model of financial reporting. The AFA has been the main proponent of regional accounting harmonization in the ASEAN. The impact of global developments on the ASEAN is highlighted by the participation of ASEAN accounting bodies in IASC activities. These two international dimensions of regulation in the ASEAN are discussed below.

ASEAN Federation of Accountants (AFA)

AFA was formed by the professional accounting bodies of the five original ASEAN members in March 1977 (ASEAN Federation of Accountants (AFA), 1977). Membership in AFA is open to a duly recognized professional accounting body from each ASEAN country, except for Malaysia, which is represented by both MIA and MACPA. Representatives from the member bodies form AFA’s governing council, which sets its agenda and overall policy direction.

Accounting harmonization was one of the main reasons for establishing AFA (Kondo, 1992). In an address preceding AFA’s formation, then chairman of the International Federation of Accountants, SyCip asserted

The formation of an ASEAN accountants organization ... will make it easier to harmonize the accounting principles and practices in the region. We will thus be complementing the efforts of the ASEAN private and government sectors in the economic development of the region. (SyCip, 1977)

However, AFA has achieved little success in its efforts to pursue regional harmonization. The initial effort at regional harmonization was manifested in the formation of a Committee on Accounting Principles and Standards (CAPS), whose charge included undertaking programs to develop accounting principles and auditing standards applicable
to conditions in the ASEAN. Following a survey of accounting principles and practices in the ASEAN, CAPS issued an exposure draft called *ASEAN Accounting Standard (AAS) No. 1 Fundamental Accounting Principles* (ASEAN Federation of Accounts, 1978a,b). The disclosure and measurement rules in AAS 1 provided a benchmark against which to compare accounting standards and practices in the region. In most cases, no substantial differences were expected between AAS and domestic standards. Where differences existed, AAS were not intended to override domestic accounting standards and regulations. However, little was done after AAS 1 was published. Notably, CAPS did not issue any other AAS, leading one observer to opine that AFA’s impact on regional accounting harmonization “has been zero” (Donleavy, 1991, p. 306).

Regional harmonization suffered a further setback following the publication in 1984 of a comprehensive survey, which analyzed a wide range of accounting standards and practices in ASEAN (SGV, 1984). It pinpointed the sources of regulation for each accounting issue, and concluded that two groups of accounting practices were clearly discernible in the ASEAN. The first group, comprising of Indonesia, the Philippines, and Thailand, were influenced in various degrees by US accounting practices, albeit the Philippines more strongly so than Indonesia and Thailand. The second group, consisting of Malaysia and Singapore, generally adopted practices in the UK.

The SGV (1984) survey prompted a rethink of AFA’s harmonization program by underscoring the practical difficulties of pursuing regional harmonization among the (then) five ASEAN members. It identified significant differences in institutional mechanisms and regulations among ASEAN countries, which served as barriers to regional harmonization. More importantly, it provided strong evidence that these environmental and institutional level differences were associated with differences in financial accounting practices. The SGV study also drew attention to the significant influence of each country’s colonial history, government agencies (whose objectives diverge from professional bodies in some cases) and IAS on financial reporting standards and practices. These long-standing and influential sources of accounting difference cannot be ignored in AFA’s pursuit of regional harmony. Although no public documents were ever published to this effect, it appears that AFA’s policy-makers determined that the effort and resources needed to achieve regional harmonization exceeded the benefits of such harmonization. With the EU’s decision in 1995 to essentially abandon regional harmonization and cast its lot with the IASC, it appears highly unlikely that regional accounting harmonization will be seriously pursued in the ASEAN.

**ASEAN and the International Accounting Standards Committee**

Support for the IASC among the five ASEAN countries has generally been strong. To varying degrees, Malaysia, Singapore, Thailand, and Indonesia have endorsed IAS for domestic reporting purposes and their professional accounting bodies have also participated in IASC Steering Committees. The strong support for IASC initiatives in ASEAN is significant because it indicates that a majority of ASEAN professional accounting bodies favor the global model of harmonization. However, it does not follow that individual ASEAN countries unquestioningly accept IAS. In Malaysia and Singapore, while IAS provide the principal basis for domestic standards, their professional accounting bodies review the applicability of IAS for local use. In Singapore, some IAS (e.g., IAS 6, 15, 29)
have not been adopted because they were considered inappropriate. In Malaysia, IAS dealing with inflation accounting, government grants, business combinations, related party disclosures, and accounting for financial institutions have not been adopted. Instead, MACPA and MIA have developed their own standards on these matters as well as on insurance and aquaculture. Thailand has been rather deliberate in adopting IAS, having adopted only 17 IAS thus far. Indonesia has adopted 21 IAS and is developing its own standards in other areas. The Philippines primarily relies on US GAAP although standards issued after 1990 make some reference to IAS.

Overall, the strong support accorded to IAS is attributable partly to features of financial reporting regulatory systems in the ASEAN. First, standard-setting agencies in the ASEAN have historically lacked the resources necessary to research accounting issues. IAS are attractive to ASEAN countries because of their ready availability, the perception that such standards are based on substantial research, and the fact that IAS are the product of a supranational body. Second, IAS allow alternative accounting treatments, which are mostly accepted in countries that have strongly influenced accounting practice in the ASEAN (UK and US). As such, IAS are highly compatible with the predominantly micro-user orientation of accounting in the ASEAN. Notably, it is the professional accounting bodies and accounting standard-setters in Indonesia, Malaysia, Singapore, and Thailand, with the tacit or official support of their respective governments, which have adopted IAS. Institutionally, it is easier to adopt IAS if standard-setting is firmly in the hands of professional accounting bodies. The process of adopting IAS is procedurally more complex in the Philippines, where a mixed government–private sector body sets accounting standards.

The level of support given to IAS in the ASEAN may be affected by the IASC’s Comparability Project. The aim of this project is to recommend accounting standards that reduce the number of options in current IAS (International Accounting Standards Committee, 1989, 1990; Chandler, 1992). It is unclear to what extent Indonesia, Malaysia, Singapore, and Thailand will support the changes proposed in the IASC’s Comparability Project. Thus far, Malaysian, Singaporean, and Thai accounting standard-setting bodies have not revised or announced their intention to revise existing accounting standards to conform to the more restrictive standards. ASEAN policy-makers are likely waiting to see what impact the revised IAS will have on the perceived quality of company financial reports. If the revised IAS are supported and accepted by major capital markets, particularly those in the UK and US, policy-makers in ASEAN will probably be inclined strongly to adopt these revised standards. Conversely, the domestic resistance of preparers, users, and/or auditors of financial accounting reports could hamper the adoption of the more restrictive IAS.

CONCLUSIONS

This article analyzed and compared similarities and differences in the institutional environment for accounting regulation in the ASEAN. Whether these institutional features suggest that accounting harmonization is feasible in the ASEAN depends on the concept of accounting harmonization adopted. The analysis suggests a movement away from a regional approach and towards a global approach to harmonization. The current institu-
tional structure of accounting regulation in the ASEAN appears to impede the progress towards regional harmonization. First, there are significant differences in the relative importance of company laws, securities regulation, and tax legislation influencing accounting standards and practices. For example, material differences exist in the level of detail provided in the company laws in the British-influenced countries (Malaysia and Singapore) and the non-British-influenced group (Indonesia, the Philippines, and Thailand). These statutory differences lead to divergence in the role played by securities market regulators, company registrars, tax administrators, and other government agencies in each country.

Second, marked differences exist in the composition of the standard-setting agency and the level of statutory support it receives from the government. Indonesia, Malaysia, Singapore, and Thailand have professionally based accounting standards that incorporate a large proportion of IASC standards. In contrast, the Philippines has a mixed government–private sector body, which draws its standards mostly from the US. Moreover, only in Indonesia do company laws and securities legislation specifically mention professional accounting standards. In other countries, professionally derived standards are applicable only to practicing accountants or, in the case of Thailand, to members of ICAAT.

Third, AFA, so far, has been unsuccessful in pushing a regional harmonization agenda. The organization appears hampered by resource constraints and the realization that achieving regional harmony is difficult, given deep-seated differences in the financial accounting systems of its member countries. Moreover, AFA does not appear to have enlisted the help of crucial public and private sector groups (e.g., securities market regulators, stock exchange administrators, chambers of commerce) in the ASEAN.

Evidence suggests that the institutional structure in the ASEAN has, until now, favored each country’s unilateral alignment of its domestic standards against some global benchmark, be these IASC or US standards. In general, one can divide the five countries into two groups consisting of those that have adopted IAS (Indonesia, Malaysia, Singapore, and Thailand) and the sole non-adopter (Philippines). In the adopting countries, the professional accounting bodies have the leadership role in determining detailed accounting standards. Consequently, the national professional bodies in those countries can concentrate on gaining acceptance for IAS as a basis for national standards. In contrast, accounting standard-setting in the Philippines is not exclusively in the hands of the accounting profession. Rather, it includes representatives from various government and preparer groups. Given the colonial and economic ties of the Philippines with the US, it is not surprising that the Philippines depends on US GAAP as the model for its accounting standards.

The IASC’s ongoing attempt to restrict the number of accounting options in its standards could affect the level of support for IAS among ASEAN countries based on how regulators and professional bodies in developed countries respond to the tighter IASC standards. Widespread international acceptance of these standards will probably result in government regulators and professional bodies in the ASEAN supporting the revised IAS, despite possible negative reaction from business groups. This appears all the more likely given the region’s ongoing economic crisis, which has heightened the need to attract foreign capital from a variety of sources all of whom will demand greater transparency in financial reporting.
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NOTES

1. See Saudagaran and Diga (1997) for an analysis of how the relative lack of economic interdependence among ASEAN countries has resulted in their opting for global rather than regional harmonization.

2. These generally include size criteria (i.e., capitalization, assets, or revenues); financial performance record (i.e., profitability and revenues); and audited financial statements for a specified number of years.

3. The definition excludes rules on account format and presentation. Notably, in the EU, presentation rules are an important aspect of accounting harmonization (Van Hulle, 1992; Thorell and Whittington 1994).

4. This is particularly the case in Malaysia and Singapore where the “true and fair view” is an overriding criterion for preparing financial statements.

5. Saudagaran and Diga (1998) study the colonial influence on accounting in post-colonial ASEAN.

6. Accounting standards issued by MACPA were subsequently approved by MIA. Since 1987, accounting standards were issued jointly by these two accounting organizations.

7. Some of these APBs and SBs are still in effect. Examples include Accounting for Earnings per Share (APB 15) and Accounting for “Dacion en Pago” Arrangements (SB July 1981). Dacion en pago arrangements refer to transactions that transfer chattel or real property to the creditor to satisfy the debt.

8. Under the Accountants Act 1987, those applying to become certified public accountants must first be members of ICPAS. Consequently, SAS apply to all licensed accountants in Singapore.

9. ICAAT’s total membership constitutes less than 50 percent of practicing accountants in Thailand.

10. These committees are: Joint body of MIA Technical Sub-committee on Accounting Standards and MACPA Committee on Accounting and Auditing Standards (Malaysia); ICPAS Accounting Standards Committee (Singapore); ICAAT Sub-committee on Accounting Principles (Thailand).

11. This body regulates the accountancy profession in the Philippines. It is one of the boards under the Professional Regulation Commission (PRC), the latter being the supra-government agency charged with overseeing all professional occupations in the country, except the legal profession.

12. This process has been varied slightly in September 1994 when the proposed Indonesian standards were presented to IAI’s National Congress of Members for ratification.

13. Formed in 1976, Bapepam is the sole government body that oversees the development of Indonesia’s securities markets. Its powers are modeled on the US SEC and include, inter alia,
evaluating whether companies meet all listing requirements; ensuring that the stock exchange is run efficiently and effectively; and monitoring the performance of listed companies.


15. In 1990, for example, it required companies to disclose reasons for not declaring as dividends surplus profit in excess of 100 percent of paid-in capital stock.

16. MACPA is a privately incorporated body while MIA is a statutory body under the Malaysian Accountants Act 1967. Issuance of a license is predicated on being a member of a recognized association including: MACPA; Institute of Chartered Accountants in Scotland; Institute of Chartered Accountants in England and Wales; Institute of Chartered Accountants in Ireland; Association of Certified Accountants (UK); Institute of Chartered Accountants in Australia; Australian Society of CPAs; New Zealand Society of Accountants; Canadian Institute of Chartered Accountants; Institute of Chartered Accountants of India.

17. Indonesia’s corporate governance structure resembles that in Germany. Comparative approaches to corporate governance have been analyzed by Macdonald and Beattie (1993), Tricker (1994), Fukao (1995), and Prowse (1995).

18. Singapore’s ICPAS established its committee in 1973. MACPA established its counterpart in 1978. MACPA selects around 30 publicly listed companies for review. ICPAS examines around 150–170 reports annually from listed companies, private limited companies, and other companies required to publish reports.

19. These studies excluded Singapore, which was classified as a newly industrialized economy (NIE).

20. Authors’ communication with ICPAS dated 30 May 1995 on the findings of its Financial Reporting Review Committee.

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