
In 1995, the International Accounting Standards Committee (IASC) began a process aimed at completing a set of so-called core accounting standards. And the International Organisation of Securities Commissions (IOSCO) agreed to evaluate those standards in order to determine whether they could be endorsed as a worldwide common minimum standard for cross-border capital market transactions. All major capital markets in Europe, the Far East, and North America (the other jurisdictions are organized in the Emerging Markets Group within IOSCO) subsequently started their own evaluation process. They also had an intensive exchange of opinions within IOSOC Working Party Number 1. The attention accorded this joint project of IOSCO and the IASC is certainly much higher in Europe and in Japan than it is in North America. It is therefore very helpful that the FASB has updated and expanded this report, which was first issued in 1996. In February 2000, the SEC published a Concept Release on International Accounting Standards, asking 26 questions and included as Appendix D an excerpt form this FASB publication: Chapter 2—Summary of Observations, in its entirety.

The Foreword summarizes the objectives of the publication: (1) to give investors a tool for comparing companies that use either US GAAP or International Accounting Standards (IASs) and (2) to provide standard setters, the FASB and IASC, with a common basis by which they can both raise the quality of their standards and at the same time narrow the gap between their two products. The FASB acknowledges that the comparison may be biased and that, for many of the IASs, only limited experience concerning their application is available.

The Comparison Project is published in two parts. In Chapter 1 of the first part, the reader is introduced to the IOSCO/IASC project and to issues bearing on the acceptance of IASs in jurisdictions around the world. The IASs and the related Interpretations (issued by the Standing Interpretations Committee) treated in the report are listed in an appendix. Chapter 2 gives a condensed overview of the differences found between IASs and US GAAP. The second part, which encompasses 90 percent of the book, contains a detailed analysis of the differences between 28 IASs and their US GAAP equivalents (Chapters 3 through 30).

In the context of global capital markets, both investors and the enterprises seeking capital face the same problem: financial statements are either to be reconciled to the rules of the capital market where a listing is envisioned or to be based from the very beginning
on standards that are recognized internationally. The FASB leaves no doubt that national capital market authorities will have to maintain sovereign control and responsibility within their jurisdictions for the reporting of companies seeking capital. This may be the key for a better understanding of the discussions held at an international level.

The FASB's study does not claim to be comprehensive. However, factual data like the increasing number of companies in many European countries already using IASs or the admittance by the Swiss Stock Exchange (as one of the larger capital markets) of listings based on financial reporting in compliance with IASs may be of some relevance, and they should not be confined to two rather short sentences in the report (p. 12). The FASB does seem to dread a trend by which domestic issuers would still have to adhere to national standards, while foreign listed companies could choose the core IASs, a situation that would reduce the comparability so wholeheartedly fought for in the past. Other reservations expressed by the FASB are the limited experience with IASs and the less elaborate due process (drafting and exposure) followed by the IASC. Another criticism has already been overcome by the new organization of the IASC, with full-time membership (except for two members to be picked from the “pool” of the preparers) and other changes, which will bring the IASC procedures closer to the philosophy of the US standard-setting process. The FASB admits that not only foreign companies are asking for a consensus on the IOSCO/IASC project. The pressure from within the US, where the stock exchanges want to play an even more important role for international issuers and investors, may be of more relevance.

Another dimension has been somewhat overlooked: the initiatives by certain large banks to form a common exchange platform for securities as well as the IT-based concepts of most major stock exchanges may well give them, in the near future, a unique opportunity to compete with heavyweights like the New York Stock Exchange or the London Stock Exchange. The so-called New Markets established in Germany and other European countries have already opted for reporting requirements linked to either IASs or US GAAP. National regulators will certainly retain control of their domestic issuers. But the well-educated institutional investors and intermediaries may well choose one day the IT platform for investments in major foreign issuers. It is hard to imagine that countries will be able to prevent their citizens from making sound investments abroad by accessing digital exchange platforms and downloading information on the issuers from the Web. Therefore, the focus in Chapter 1 may overemphasize national capital market authorities and regulators, where a link to the demand from the market would be more appropriate. But there is no doubt that both the FASB (as an observer in meetings of the IASC board) and the SEC (as a leader within IOSCO) are playing an important role in the progress made so far on an international level. And the three elements highlighted by the SEC as the grounds for endorsing the IASCs core standards are key to any reasonable solution for all parties concerned: A core set of standards constituting a comprehensive and generally accepted reporting basis—standards of high quality granting comparability, transparency, and full disclosure—and rigorous application and interpretation of the IASs.

The analyses in Part II are based on criteria described in Chapter 2 of Part I. The classification of the differences concerning recognition, measurement, availability of alternatives (options), lack of standards for a particular topic, and others does not introduce any novelty into the discussion. But it assists the process of reaching a judgment on whether specific differences may have a negative impact on the information process.
The FASB project is limited, however, to a comparison of the standards and does not consider the actual application or the enforcement of IASs in other jurisdictions. This task is left to further studies. Unfortunately, many of the academic research papers in this area (e.g., in France, Germany, and Switzerland) are not available in English translation.

The authors acknowledge that the merit of providing more extensive guidance does not always belong to US GAAP. The question to be answered eventually is, whether the IASs are structured and written in such a way that they can be consistently interpreted and applied in order to meet the demand for the international comparability of financial statements. The FASB, however, does not question whether this holds true for its own standards as well. And it does not question whether a reasonable and feasible comparability can be reached at all. The need for industry-specific standards has long been sensed by the FASB (whereas the IASC is only now starting to work on this problem), and this proves that comparability is constrained not only by differences in accounting rules.

Those looking for a quick and basic understanding of the similarities and differences between the two sets of accounting standards will find Chapter 2 very helpful, as it gives good and fair examples of the strengths and weaknesses of both systems. But this chapter also shows that US GAAP may sometimes be the answer to specific national issues that are of lesser importance abroad. The propensity to structure lease transactions so as to avoid capitalization (recognition) is one example. On the other hand, the requirement to expense all internally generated development cost as incurred is a concept that many other countries share with the US. The IASs very often reflect a compromise not so much between different ideologies but rather on disparities in facts at an international level.

Some differences could be easily overcome. This is the case for in-process research and development acquired, as well as for the maximum life allowed for the amortization of goodwill. Other differences should not be stressed as much as in the FASB publication. This is true for classification issues like the one on mandatorily redeemable preferred stock or the one concerning dividends in the Statement of Cash Flows. And, last but not least, there are issues where the US position is simply a matter of belief, not of better arguments, like the reversal of impairment losses not allowed under US GAAP.

The arguments concerning the rebuttal of the revaluation concept for fixed assets are also not very convincing. Sometimes the FASB relies too much on specific solutions that fit the needs in its national jurisdiction, as is the case of post-retirement benefits. And some differences are of no importance, considering the scope of the project launched by IOSCO, i.e., lowering the hurdles and cost for cross-border listings and other capital market transactions. In this regard, one is unable to see why the FASB keeps repeating the fact that US standards apply to not-for-profit organizations and the IASs do not.

The FASB is certainly right when it says that the extent to which the reported financial information meets the demands of its investors and other users is crucial and not so much whether there are differences between two specific sets of standards. But it is questionable whether the fact that IASs do not focus on any particular economic or legal environment—and the conclusion that, because of this, IASs may have a tendency toward being more general—is really a flaw. Therefore, the second conclusion seems to be more appropriate: for accounting standards to be really international in their approach, they have to refrain from relying on a very particular environment, and it would be more helpful to give local guidance on any issues that may be dealt with differently in various countries, like e.g., post-retirement benefits and pension plans.
The analyses in Part II have been prepared very thoroughly, and they are certainly comprehensive. One can draw extensively from this source, not just when comparing standards but even more so when trying to understand the rationale behind some of the rules. The FASB has not been looking for an easy “game at home,” because it invited selected reviewers to comment on the comparison. Some comments have been included in the introductions to the reviews of the 28 standards. Most of these thoughts are worth repeating, but only very few can be cited here:

- “Both IAS 14 and Statement 131 provide useful information about a company’s segment performance and investment. Any non-compatibility caused by either standard would not worry most analysts, since the individual company segment disclosures are specific to each company and, except for minimum disclosure requirements, are by their nature non-compatible (p. 161).”
- “The two most important differences likely to impair comparability are the different classification criteria for a business combination (i.e., poolings vs. purchase), and the accounting treatment of acquired in-process R&D . . . (p. 289).”
- “Most US analysts are greatly troubled by at least three aspects of US GAAP dealing with business combinations . . . IAS 22’s treatment of these three business combinations issues would be preferred over US GAAP’s by many analysts (p. 289).”
- “There is little difference between the allowed alternative of IAS 23 and Statement 34. Any differences caused by the different definition of borrowing costs, for example, would be lost in a shuffle (p. 321).”
- “US analysts . . . would most probably find IAS 28 acceptable in nearly all respects at the principle level, but with some exceptions . . . would not find its disclosure provisions acceptable . . . Opinion 18’s disclosures are considered very useful by analysts (p. 349).”

These few selected comments show that, among other things, US analysts with broad international experience have overcome the easy attitude expressed in a European saying: “Things the farmer doesn’t know well, he doesn’t eat.” In fact, many differences could be discarded as being of little importance, or the IASC approach may sometimes even be favored over the traditional US solution.

There is no doubt that US GAAP possesses the advantage of well-established experience in applying and interpreting its standards. For further discussion within the US, it may therefore be more important to focus on the merits of the solutions proposed by the IASC and on a limited number of exceptions for which a restatement to the US approach may be desirable. In the end, the real problem lies in the interpretation of the IASs and with the enforcement of compliance by the regulatory bodies in the leading capital markets. Extensive guidance may be one proven tool to narrow the room left to preparers and auditors. But a “reengineering” of the US concept with more focused rules (it is easier to write 10 pages on a subject than to nail things down on 1 or 2 pages) and a more meaningful application of often-cited but rarely followed general rules like substance over form (e.g., in the leasing discussion) may eventually lead us further toward one common set of reporting standards for multinational public companies than an endless list of “may-be differences.” The FASB publication is a good
starting point, and some of the deficiencies of the first edition have been eliminated. What we need now is an unbiased discussion focusing on material issues as well as a spirit of accepting “new and foreign solutions.”

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This well-written textbook covers much more than the title implies. Although it is written for financial reporting and analysis, most of the book would make a great international accounting text. This textbook’s strength is that it encourages students to look at cultural backgrounds in order to understand financial reporting; however, its weakness is that it requires a strong US financial reporting background. As a consequence, US-trained analysts, accountants, and educators would derive the most benefit from this textbook's approach.

In Part I (Chapters 1–3), the book begins with a comprehensive background of international financial reporting. It includes the cultural aspects related to accounting, professional standard-setting organizations, and financial reporting in the European Union. Part II (Chapters 4–6) discusses financial statement analysis. Part III (Chapters 7–13) provides detail regarding environmental factors, selected financial reporting practices, and analytical considerations in seven selected countries.

Chapter 1 (“Accounting and Its Global Contexts”) uses Hofstede’s cultural framework to help students understand how “collective mental programming” (1) affects beliefs and attitudes; (2) is reflected in a country’s legal, political, and business environments; and therefore (3) influences that country’s accounting and financial reporting. In this chapter, the authors expand on Hofstede’s cultural research by integrating several related research studies. This chapter explores Hofstede’s cultural analysis, including examples, in the seven countries that are further developed in Part III of the text. This is one of my favorite chapters, as it is well written and clearly demonstrates the importance of understanding the cultural background of a country to be able to understand its financial reporting.

Chapter 2 is titled “Harmonization of International Accounting and Reporting Standards,” and it examines harmonization and the effect of capital and information flows. Students are introduced to, and given examples of, reporting strategies, from “convenience translations” to “world standard reports”: the various ways in which multinationals cope with the absence of a universally accepted set of accounting standards. The relevant political organizations (United Nations, OECD) and professional organizations (IASC and IFAC), and a federation of securities market regulators (IOSCO), are introduced and discussed. This chapter also comments on selected IASC standards.