International Accounting Standards in Canada

Alan John Richardson
York University

CERTIFIED GENERAL ACCOUNTANTS ASSOCIATION OF CANADA

The Case for

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A Detailed Report

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About the Authors
Alan J. Richardson, Ph.D., FCGA, is Professor of Accounting and Executive Director of the CGA-Ontario International Business Research Centre in the School of Business, Queen's University, Kingston, Ontario.

Ian R. Hutchinson, B.Comm., CA, is a Ph.D. candidate at Queen's University and an Associate Professor at Mount Allison University in Sackville, New Brunswick.

“Nationalism,” Albert Einstein once said, “[is] an infantile disease. It is the measles of mankind.” While we don’t usually associate Einstein with accounting, I can’t help but feel that this quote contains a valuable message. To mature as a profession, accountants need to broaden their outlook and take a more international perspective.

In particular, if we want to effectively serve an increasingly borderless business community, we need to think long and hard about the accounting standards we use. There seems little point for countries to continue to support elaborate domestic accounting standard-setting processes. Clearly, if the entire profession, in all countries, supported a single set of harmonized standards, the business community would benefit. It would increase financial statements’ credibility, as users would find it easier to compare statements originating from different countries if these documents were prepared using a consistent approach.

In Canada, there has already been some debate as to whether it is time to move away from “made in Canada” accounting standards. No consensus has arisen, however, as to which standards should be adopted in place of Canadian generally accepted accounting principles.

In this report, Alan J. Richardson and Ian R. Hutchinson set out strong and well-reasoned arguments in favor of Canada committing to use the international accounting standards (IAS) developed by the International Accounting Standards Committee. Discussion of this research led the Certified General Accountants Association of Canada (CGA-Canada) to approve, in July 1999, a policy statement supporting the adoption of IAS for financial reporting by profit entities in Canada. As part of this policy statement, CGA-Canada advocates the establishment of an independent, Canadian accounting standards committee to approve (or adapt, where necessary) international standards to suit Canada’s economic, legal and political environments, and to contribute, on Canada’s behalf, to the further development of international standards. We envision that this committee would include broad representation, not just from all Canadian accounting bodies, but also from “stakeholder” groups - those who actually use the resulting financial statements.

Choice of accounting standards is a critical issue - ultimately, the debate must involve all professional accounting bodies and other stakeholders. CGA-Canada is pleased to contribute to this debate by publishing *The Case for International Accounting Standards in Canada - A Detailed Report.*

Guy Legault, FCGA
President and COO, CGA-Canada

Table of Contents

Executive Summary

This paper analyses the consequences for Canada of adopting Financial Accounting Standards Board (FASB) standards versus the International Accounting Standards (IAS) of the International Accounting Standards Committee (IASC), in the wake of the Canadian Institute of Chartered Accountants' Task Force on Standard Setting (TFOSS) report. The analysis is based on a model of the roles that standards play in society, which suggests that the decision to adopt one standard-setting regime rather than another should be based on:

(1) the quality of the standards and standard-setting process, specifically:
- (A) the ability of standards to protect vulnerable interests; and,
- (B) the openness of the standard-setting process to the expression of affected interests.

(2) the relative size of the communities using each standard considering:
- (A) the specific community in which Canada is embedded (in terms of trade and capital flows; and,
- (B) the global acceptance of each standard-setting regime and the growth rates of each community.

(3) the costs of using each standard including:
- (A) direct compliance costs;
- (B) affects on the cost of capital; and
- (C) costs of the standard-setting process.

The analysis presented in this paper suggests that with regard to:

(1) Quality:
FASB and IASC standards are broadly similar and converging. The two main conceptual differences between them are that (1) FASB has emphasized setting standards for measurement while the IASC has been mostly concerned with disclosure (and hence allowing alternative measurement systems) and (2) the IASC retains the requirement that financial statements be "true and fair" rather than simply in accordance with generally accepted accounting principles (GAAP) as in the United States. The FASB approach appears to be driven by concerns over litigation (and hence the ability of management and auditors to justify reporting choices by reference to a definitive standard) and concerns over the use of accounting information by naive investors who may not correct for differences in measurement in spite of disclosure of accounting policies. FASB standards are arguably of higher quality in the sense of allowing less managerial discretion but may not capture the true state of the company where standards are not in touch with changing circumstances.

The FASB process stresses the appearance of independence and of openness of the process to public scrutiny, while the IASC process stresses political representation. At the moment, Canada is more likely to be able to influence IASC standards than FASB standards through our participation on the IASC Board and committees. Canada has participated in joint standard-setting projects with FASB but has no formal standing within the FASB decision-making process. Both processes provide a means of influence through comments on exposure drafts. The final judgment on which of these processes provides the greatest protection to vulnerable interests depends on whether standards are seen as neutral technical instruments or as social choice mechanisms.

(2) Size of the Community:
Canada is economically dependent on the United States for trade and capital, which suggests the appropriateness of FASB standards for Canada. IAS, however, are more widely adopted around the globe as national standards and FASB recognizes that the "made-in-America" label limits the acceptability of their standards (the assumption FASB seems to make is that their standards are technically superior but politically unacceptable). It is notable, for example, that only 10 countries have accepted financial statements based on FASB standards for filings from foreign companies. These factors suggest that as the level of economic development around the world equalizes, IAS will be the standards of choice. Canada thus faces a dilemma in its choice of a standard-setting regime between the immediate community of its dominant economic partner and the long-run community of global trading partners.

(3) Costs of Compliance and Standard Setting
The available evidence suggests that the market does not react to translations between IAS and FASB financial statements. This suggests that these statements are equivalent in terms of their information content. In spite of this, clearly the cost of producing and auditing according to a single standard is preferable to the cost of using two systems. The greater degree of discretion provided under IASC standards may provide lower costs of compliance for some companies. This is an issue in particular for smaller- and medium-sized companies. U.S. GAAP is widely regarded as being designed for large companies and as being unduly onerous for small and medium-sized organizations. The difference between IASC and FASB standards, however, has decreased dramatically over the last five years and, as a result, differences in compliance costs may be short-lived.

CONCLUSION

The TFOSS conclusion that Canada should harmonize with FASB standards while maintaining its political influence through IASC is a reasonable short-run strategy for the CICA to adopt given the foregoing analysis. The move to harmonize with FASB is consistent with the economic dominance of the United States (with respect to Canadian trade and investment), the demonstrated preferences of large Canadian firms and the preferences of the large audit firms. The recommendation to maintain a foot in the door with IASC recognizes the most likely long-term resolution of the quest for harmonized accounting standards and the need to maintain a standard-setting approach that is independent in appearance from that of the United States.

We are concerned, however, that what might be gained in supporting the near-term position taken by the CICA would be more than offset by the losses sustained by not immediately adopting a longer-run approach to the standard-setting process. If our analysis is correct, then in the long run IASC will become the global standard setter, although probably restructured along FASB lines. This ultimate outcome (likely to occur within the next 10 to 15 years) suggests that Canadian standard setters might be better served by further consolidating their role in the IASC and International Federation of Accountants (IFAC) by immediately committing to IASC standards and avoiding any endorsement of FASB standards.

RECOMMENDATIONS:

(1) Canada maintain a domestic standard-setting body to work with the international standard-setting community and to legitimate any standards or variations on standards adopted in Canada. To date, Canada has been an important player in the development of accounting standards and this role should be transferred to the international sphere.

(2) Canada develop a standard-setting body more broadly representative of Canadian professional and business interests to offset the emphasis on technical issues characteristic of FASB and likely to be the key concern of a reorganized IASC. We believe that accounting standards are social-choice mechanisms. There must, therefore, be some effective mechanism in any new standard-setting process to allow interest groups to affect the variant of international standards adopted in Canada. This change is also consistent with the CICA's recognition that the standard-setting process is too expensive to be financed by a single private organization.

(3) Canada should commit to the use of IAS. Canada has an opportunity to take a leadership role in the development of global accounting standards and should avoid short-run decisions that increase the time and net costs of achieving global harmonization. IAS also provide the flexibility for the majority of domestically focused firms to avoid the higher costs of FASB standards while allowing those firms that want access to U.S. capital markets to conform to both FASB and IASC standards.

1 Introduction

The preliminary report of the CICA[1] Task Force on Standard Setting[2] (TFOSS) recommended that Canada should "remain open to the alternative scenarios of International or North American standard-setting bodies" (recommendation 2.1). These "scenarios" are projections of possible futures for Canadian standard setting. The "International" scenario raises the possibility that Canada will abandon its standard-setting role in favour of IASC[3] standards while the "North American" scenario considers the possibility of adopting FASB[4] standards (as part of a NAFTA[5]-based standard-setting process). The interim report did not express a preference between these two alternatives. The final report[6] issued in May 1998 recommends the harmonization of Canadian accounting standards with FASB standards, although it also recommends that Canadian standard setters maintain a continuing presence within IFAC[7] and the IASC. Under this recommendation, Canadian standard setters would either accept a FASB standard "as is" or recommend a variant of that FASB standard more consistent with Canadian circumstances.

The intent of this position paper is to analyse these alternative scenarios ("International" or "North American") and to recommend a preferred position in light of the consequences of each choice for the accounting profession in Canada and for Canadian business in general. It is not the intent of this paper to suggest the process by which the recommended position be implemented. The paper is, therefore, strategic in intent. Further analysis would be required to suggest tactical plans. The paper begins by developing a framework for considering the alternative scenarios. This framework identifies the roles that standards play in society and infers the desirable characteristics of a standard-setting regime from the functions that standards play. The criteria inferred from this framework are applied to the issue at hand. Separate sections of the paper consider the community served by each standard-setting regime, the likely compliance costs to Canadian businesses under each set of standards, the ability of the decision processes used under each regime to register and respond to Canadian concerns, and the costs of standards creation and maintenance under each alternative. The final section summarizes the analysis and presents our recommendations.

1. The CICA is the Canadian Institute of Chartered Accountants.
2. CICA *Interim Report of the CICA Task Force on Standard Setting* (TFOSS), June 30, 1997, Toronto.
3. IASC is the International Accounting Standards Committee.
4. FASB is the Financial Accounting Standards Board.
5. NAFTA is the North American Free Trade Agreement.
6. CICA *Final Report of the CICA Task Force on Standard Setting* (TFOSS), May 1998, Toronto.
7. IFAC is the International Federation of Accountants.

2 A Framework for Choosing a Standard-Setting Regime

The framework to be used to analyse the effects of the choice between IASC and FASB as a base for Canadian standard setting is essentially pragmatic. Standards are created and followed as guides to behaviour because they serve some function in society or, more precisely, because individuals find it in their self interest to follow these standards. The choice of a standard-setting regime will thus be based on the ability of that regime to fulfil its functions. The purpose of this section is to define the functions that standards play in society and to infer from these functions the desirable qualities of a standard-setting regime.

Standards in any area of life fulfil three functions: protection, comparison and co-ordination[8]. The protection function is achieved by creating standards that recognise first- and third-party[9] interests where quality is difficult to evaluate and quality failures have severe consequences. This concern, for example, is used to justify licensing doctors, lawyers and accountants to set a minimum quality standard on which their clients can rely. The comparison function is achieved by creating standards that allow consumption or investment decisions to be made without costly translation between alternative measurement systems. This concern lies behind the creation of standards for weights and measures, and has been cited in the creation of a common currency for the European Union. Finally, the co-ordination function is achieved when interacting parties each adopt the same standards for their work. For example, the use of a common language (English) for air traffic control ensures that ground staff and pilots can co-ordinate their actions regardless of the part of the world in which the airport may be located.

It should be noted that, in a given circumstance, different sets of standards would often fulfil equally these three functions. For example, the standards used to control road traffic patterns are essentially arbitrary (e.g., the rule about which side of the road to drive on). In such cases, additional standards selection criteria must be introduced. In particular, it is reasonable to require that any standard-setting process should minimize the cost of creating and maintaining standards. In the case of traffic standards, for example, it is clear that adopting the British road patterns in Canada would cause greater costs in handling U.S. border traffic and would probably raise the cost of purchasing cars. It thus makes sense on cost considerations to use road standards broadly consistent with the United States rather than the United Kingdom. In the case of accounting standards, a broad definition of costs must be used, which recognises the direct costs of standards creation as well as the costs incurred by information preparers and users.

Criteria for Choosing a Standard-Setting Regime

- ***largest community of users***
- ***openness of process***
- ***quality of standards***
- ***lowest cost of creating and maintaining standards***

8. Baylin, G., MacDonald, L. and Richardson, A.J., "Accounting Standard-Setting in Canada, 1864-1992: A Theoretical Analysis of Structural Evolution," *Journal of International Accounting and Taxation*, V5 N1 (1996): 113-131; see also Gorelik, G., "The Setting of Accounting Standards: Canada, the United Kingdom and the United States," *International Journal of Accounting*, V29 (1994): 95-122.
9. The "first party" to a contract is an agent (person or organization) who is part of the original contract; a "third party" is an agent who is not part of the original contract but is nonetheless affected by the execution of the contract. In the case of an audit, shareholders are first parties while potential investors who rely on published financial statements are third parties.

Given the functions of standards described above, certain basic premises for the choice of standard-setting regimes may be derived. First, standards must meet the needs of the community for the protection of vulnerable parties. This requirement has both content and process implications. From a content point of view, we can analyse alternative sets of standards and compare the level of protection provided. More specifically, we can ask whether or not FASB and IASC standards provide for equivalent levels of disclosure and measurement. We can also compare Canadian standards to each of these two alternatives (FASB and IASC) to identify areas in which our national concerns differ from those of the alternative standard-setting bodies. From a process point of view, we can analyse the process used to create standards and determine whether or not the process is equally open to the expression of the needs of vulnerable parties. In particular, when considering the change from Canadian-made to alternate standards, we can consider the ability of Canadian interests to affect the process of each regime.

Second, the comparison and co-ordination functions both imply that the value of standards increases the larger the community using the standards. When considering the choice of FASB versus IASC standards we should, therefore, consider where Canadian investors invest their money and where Canadian investment projects seek their funds. Such links will define the major community of concern with regard to the standard-setting process. Note, however, that the importance of financial reporting to other groups in society (e.g., labour and environmental groups) is ignored by this approach and is a limitation of the present analysis. Additionally, we must be sensitive to changes in the pattern of investment and capital formation as the level of economic development equalizes across countries.

Finally, the choice of standard-setting regime must be sensitive to the costs of creating and maintaining standards. These costs must include both the direct costs of Canadian participation in the standard-setting process and the indirect compliance cost faced by financial statement preparers. Such indirect costs include the analytical or information-gathering costs incurred by financial statement users in their interpretation of the statements or in the supplementary information-collecting activities that are required when standards do not result in adequate disclosure for financial statement user purposes.

3 Comparing the IASC and FASB Standard-Setting Regimes

Based on the criteria developed above, the remainder of the paper considers the status of each of the alternatives to made-in-Canada accounting standards. This comparison will be structured as follows. First, we will consider the set of users and preparers who form the community for accounting standards in which Canada is embedded. Our approach to this question is somewhat indirect since we are concerned with a community that does not yet exist. To identify the countries that should be part of Canada's accounting standard-setting community, we examine the pattern of trade and capital flows into and out of Canada. Given that the primary use of financial statements is to monitor the uses of capital, this seems a reasonable proxy for the community of interest. We also examine the current set of users of FASB and IASC standards. This analysis is based on current regulatory requirements for securities, business and tax filings in countries around the world. This analysis combined with the first allows us to examine whether or not the current alignment of standards is consistent with the current flow of funds. If there is a difference between these two results, then we will examine trends in both standards adoptions and shifting patterns of capital flows to determine whether or not alignment is likely in the future.

Second, we will examine the decision process used under each standard-setting regime to determine the opportunities for (a) the input of vulnerable parties; and (b) Canadian input in each situation. This analysis will consider both the structure of the process and the known performance of the process.

Finally, we will turn to the degree of compatibility of the three sets of standards (Canadian, FASB, and IASC) and the likely costs of compliance associated with each. We assume in this analysis that such compliance costs will be correlated with (a) the restriction of discretion in disclosure and measurement implied by each of the alternative scenarios; and (b) the extent of changes required to move from Canadian GAAP to an alternative set of accounting standards.

3.1 IDENTIFYING THE COMMUNITY OF USERS OF ACCOUNTING STANDARDS

A basic finding of network economics is that the value of the network to individual users increases as the number of users in the network increases. For example, imagine that different telephone systems each used a different standard, resulting in the restriction that you could only phone others on the same system. Once the telephone system is in place, the cost of adding new users is approximately zero (up to the capacity of the system) but each additional user allows all existing users to reach more people, thereby increasing the value of the service to them. A new user considering which system to join would, all things being equal, subscribe to the telephone system with the greatest number of existing users. Furthermore, existing users of a system would actively encourage others to join their network.

This is a unique result which is contrary to the finding that most economic goods decrease in value as more people use that good (for example, consider the effect of use on natural resources such as waterways, recreational lands or public infrastructures such as roadways). Standards are network goods. In choosing a standard-setting regime, therefore, we wish to ensure that Canada is part of the network with the greatest number of users in order to maximize the value to individuals using that standard. Since we are dealing with a set of potential users our examination must be indirect. We examine three indicators of network size. The first two are relatively short term. We examine the current pattern of trade flows and capital flows in which Canada is embedded. These flows identify a current network of stakeholders who would arguably benefit from common accounting standards. We should, therefore, recommend joining the same standard-setting regime which applies to the majority of our trading partners and capital suppliers. We also examine the current preferences of Canadian companies regarding the choice of accounting standards where they have opted to deviate from reporting under Canadian GAAP. This analysis should be consistent with the first, but will also provide evidence that the deviation from Canadian GAAP is economically valuable to companies.

Finally, given that trade patterns are the result of current conditions and historic circumstances, we also attempt to determine whether there is a pattern in the global adoption of accounting standards. In the long run, Canada's trade patterns have changed dramatically (i.e., from our dependence on the United Kingdom to our dependence on the United States) and are likely to do so again as the global economy develops. Presumably, a decision to adopt a standard-setting regime should be based on the long-run trends rather than committing to temporary conditions, which would require a further change at a later date. To assess this dimension of the community of users we examine the adoption of IAS and FASB standards by stock exchanges and national regulators around the world.

3.1.1 WHO ARE CANADA'S TRADE PARTNERS AND CAPITAL SUPPLIERS?

There is no question that the United States is Canada's major trading partner and source of capital. According to Statistics Canada data for 1996, the United States provided Canada with 48% of foreign investments in Canadian money market instruments (Appendix A, Table 1); 92% in stocks (Appendix A, Table 2); 46% in bonds (Appendix A, Table 3); and 68% of foreign direct investment (Appendix A, Table 4). Similarly investment by Canadians abroad tends to be concentrated in the United States. For example, 65% of Canadian investment in foreign stocks is in the United States; 59% of bonds and 54% of Canadian direct foreign investment is in the United States. Similarly, with regard to trade, the United States is Canada's major partner, accounting for 81% of Canada's exports (Appendix A, Table 5) and 68% of all Canadian imports (Appendix A, Table 6). The next largest trading partner is Japan, which accounts for less than five per cent of Canada's imports and exports.

The unquestioned dominance of the United States. in Canada's financial and product markets provides strong reasons for ensuring that there is broad consistency between U.S. and Canadian accounting standards. Our past history with standard-setting provides evidence that this concern has been recognized and acted upon (refer to Appendix F and the discussion below in Section 3.3 for further details). This evidence, however, should be recognized as (a) historically contingent (since trade patterns do change); and (b) subject to an analysis of whether or not there are significant differences between IASC and FASB standards.

3.1.2 CURRENT PRACTICES IN THE CHOICE OF STANDARDS BY CANADIAN COMPANIES

The trade and capital flow evidence cited above suggests that Canadian companies would have an economic incentive to lobby for FASB standards in Canada. This would be corroborated by evidence that Canadian companies are using FASB standards in dealing with international markets. Archibald *et al*[10] have reported that several major Canadian companies including Imax Corporation, The Seagram Company and Canadian National Railways have abandoned or will shortly abandon Canadian GAAP for public reporting in favour of U.S. GAAP. These decisions have been taken in spite of the companies' continuing requirement to file statutory reports under Canadian GAAP. The reason given for the use of U.S. GAAP for public reports is simply to level the playing field for companies competing in U.S. capital markets. For example, the opportunity to expense purchased research and development expenses under U.S. GAAP rather than amortise it as is required under Canadian GAAP helps high-tech companies to show higher profits in the years after acquisition. The decision to report according to U.S. GAAP is facilitated by a change in the CICA Audit standards, which allows Canadian auditors to report on a Canadian firm using non-Canadian GAAP as long as the choice of GAAP is consistent with the intended purpose of the statements.

The IASC web site reports that 43 Canadian companies use IAS in their annual reports. A review of these firms' annual reports indicates, however, that they were prepared according to Canadian GAAP but said to conform "in all material respects to International Accounting Standards". In addition, many firms qualified their compliance with IAS by stating that they "conformed in all material respects to *historic cost* International Accounting Standards" (emphasis added). This qualification recognizes the broader use of revaluations under IAS as compared to those under Canadian GAAP and uses the "benchmark-and-alternative" approach within IAS to achieve/claim conformity (cf. Cherry and Fleming, 1996)[11].

According to Industry Canada, Canada is the most open economy in the world when measured by total trade compared with the size of the economy (i.e., Gross Domestic Product). In spite of this achievement, Industry Canada also reports that 75% of all international trade is generated by 50 companies. The concentration of Canadian international activity is also reflected in cross-border listings by Canadian firms. For example, according to the *Toronto Stock Exchange Review,* there were approximately 1,400 firms listed on the TSE[12] as of July 1997, and only 203 of these firms were cross-listed on a U.S. stock exchange. These statistics suggest that while some large Canadian firms have committed to FASB standards, the majority of Canadian firms remain domestically focused and are thus unlikely to see particular benefits from the choice of FASB as a standard-setter for Canada.

3.1.3 INTERNATIONAL ACCEPTANCE OF IASC AND FASB STANDARDS

If one looks at the degree of acceptance of IASC and FASB standards by stock exchanges and in national filing requirements, it is apparent that IAS have been adopted more widely (see Appendix B). In fact, only 10 countries[13] are reported to allow companies to file FASB-based financial statements and, of these 10, eight also allow IAS based statements (only Israel has adopted FASB standards as their own). While FASB standards may be used

10. Archibald, R.T., Lanfranconi, C.P. and Robertson, D., "Who Do You Report To?" *Ivey Business Quarterly,* Winter 1997: 44-48.
11. Cherry, P. and Fleming, C., "Quietly Influential," *Accountancy - International Edition,* Dec. 1996: 58-59.
12. For current market statistics, refer to TSE's web site at www.tse.com/visitor/index.html.
13. The 10 countries are Australia, Austria, Belgium, France, Germany, Israel, Peru, Poland, Turkey and Uzbekistan.

currently to account for the majority of the world's assets, this situation is clearly unstable as the world continues to develop economically and the U.S. share of world Gross Domestic Product declines.

There are reports that U.S. stock exchanges are concerned that they are losing listings to foreign exchanges because of the costs of compliance with FASB standards[14]. Appendix C provides evidence of the extent of cross-border listings and other capital flows. By comparison with many international exchanges, U.S. exchanges have relatively few international companies listed. The New York Stock Exchange, for example, has only 355 foreign listings (13.5%) compared with 1,996 foreign listings (74.0%) on German exchanges or 467 foreign listings (18.6%) on the London stock exchange (Appendix C, Table 1). A similar result occurs in the bond market where the London exchange reports 706 foreign listings (41.9%) compared with 58 (10.9%) on the New York Stock Exchange (Appendix C, Table 2). In a world of global, online trading the "access to capital"-based advantages of a U.S. listing are rapidly dissipating. The growth rate of exchanges outside of the United States provides some evidence of the shifting patterns of capital flows. For example, Germany, Italy, France and Canada all saw more rapid growth in cross-border capital market transactions than the United States during the 1990s (Appendix C, Table 3).

There is ample evidence that the value of standards increases with the size of the network of users. In technological areas, the widespread dissemination of standards has sometimes resulted in an "inferior" standard dominating the market. The best known example of this is the success of the VHS video format over the technologically superior Beta format. If accounting standards follow a similar evolutionary path, then IASC standards may come to dominate in spite of any quality differences with FASB.

The global economic and cultural dominance of the United States since World War II has created a backlash of resistance to the imposition of anything originating in the United States. Ed Jenkins[15] recognizes this issue and appreciates that while FASB could and would prefer to be the global standard setter, this may be politically impossible. That conclusion has led the SEC[16] and the FASB to work with the IASC to attempt to restructure the IASC along U.S. lines and to work co-operatively to harmonize FASB and IASC standards.

3.1.4 SUMMARY: THE COMMUNITY OF INTEREST FOR ACCOUNTING STANDARDS

The dominance of the United States as Canada's trade and investment partner as reviewed above suggests that harmonizing with U.S. GAAP rather than IAS may be an effective short-run approach. This short-run approach is supported by the decision of some Canadian firms to comply with U.S. GAAP in the annual reports where they deviate from Canadian GAAP. Such support for U.S. GAAP is, however, mitigated by the wider acceptance of IAS in non-U.S. countries and the more rapid growth rates of non-U.S. exchanges. These indicators suggest that, in the long run, IAS will dominate financial reporting standards globally. Overall, we see a dilemma between the short-run and long-run implications. Our recommendation, based on political considerations discussed below, is for Canada to take the long-run view

14. Edwards, F.R., "Listing of Foreign Securities on U.S. Exchanges," *Journal of Applied Corporate Finance,* Winter (1993): 28-36.
15. FASB Chair Ed Jenkins' response to questions by one of the authors following his speech, "The Evolution of Corporate Financial Disclosure," given at the Academy of Accounting Historians Conference, Nov. 12, 1998, Atlanta, GA.
16 The SEC is the U.S. Securities and Exchange Commission.

3.2 THE DECISION PROCESSES OF THE IASC AND FASB

The role of standards in protecting vulnerable interests is in part a technical issue (to which we will return in Section 3.3) and in part a process issue. This section is concerned with the process by which standards are created. If a standard-setting process is to protect vulnerable interests, then there must be safeguards in place to allow those interests to be expressed and to ensure that the process is not influenced by special interests. These two concerns may be difficult to reconcile. Any mechanism which allows interests to be expressed also provides a mechanism to influence the process. In Western democracies, a variety of mechanisms have been created to reconcile these needs, including elections to allow accountability and judicial independence to ensure impartiality. The choice of a mechanism to reconcile these concerns depends in part on whether accounting standards are seen as being technical issues (in which case impartiality is the key issue), or whether they are seen as social choice issues (in which case accountability and political representation are the key issues). These two views of the standard-setting process are reflected in the structures of FASB and the IASC.

The standard-setting processes used by the IASC and FASB are broadly similar as shown in the Table below (Appendix D and E provide fuller descriptions of the IASC and FASB processes respectively). Both systems are based on Western concepts of due process and, hence, allow for public input and use a super-majority decision-making rule to provide protection of minority interests and to guard against undue pressure on individual members. Both processes provide a "fast-track" system to identify and deal with emerging issues, and involve a broad community of stakeholders in the committee process, which generates alternatives. The key differences between these groups (and major stumbling blocks to FASB and SEC acceptance of the IASC as a standard-setter [Jenkins, — see note 15]) are their funding structures and the characteristics of members of the voting group.

The IASC is funded by professional accounting associations and the standard-setting board is composed of representatives of countries (analogous to the United Nations). FASB is funded, nominally at arm's-length, by the Financial Accounting Foundation which, in turn, receives funding from the profession and users. FASB's members are drawn from industry, academe and the profession but are expected to act in a non-partisan manner.

Stage of the Standard-Setting Process	FASB	IASC
Appointment of Standard Setters	Financial Accounting Foundation appoints the Board	IFAC Council appoints Board
Issue Identification	Financial Accounting Standards Advisory Council	Consultative Group
Agenda Setting	Board	Board
Emerging Issues (Fast Response Capability)	Emerging Issues Task Force	Standing Interpretations Committee
Work on a Specific Standard	Advisory Task Force & Specific Task Force	Steering Committee
Process	Discussion Memo Public Hearing Exposure Draft Comments Board Decision (5/7 vote) Standard	Draft Statement of Principles (DSOP) Board Approval of DSOP Exposure Draft (requires 2/3 vote) Comments Standard Drafted Board Approval (3/4 vote)
Implementation (Marketing)	Staff	Advisory Council & Staff

Members must formally sever ties with their previous employers when they join FASB. Although this severance provides an appearance of independence, because FASB members are not appointed for life, individual FASB members are clearly concerned about the future consequences of their standard-setting decisions. FASB and the SEC are apparently unwilling to accept standards generated through a political process such as that of the IASC and are working to bring about change in the IASC's processes so that such processes will more closely resemble U.S.-based processes.

The current structure of FASB provides little room for non-U.S. involvement at the Board level but, presumably, foreign submissions on exposure drafts would be accepted. IASC provides a mechanism for direct representation of national interests at the Board level as well as at various committee stages of standards development. The FASB and IASC thus provide different models for the process of setting standards. These differences, however, may disappear as the SEC and FASB bring pressure to bear on IASC and IFAC to bring their processes in line with U.S. precedents.

3.2.1 SUMMARY: IMPLICATIONS OF DECISION PROCESSES FOR THE CHOICE OF STANDARDS

The discussion above suggests that the IASC and FASB are equally open to the expression of vulnerable interests and have adopted "due process" procedures. The key differences at the moment are the extent to which each process is either open to, or shielded from, political interests. The FASB structure is designed as if accounting standards were technical in nature and could be formulated independently of those affected. The IASC structure is designed as if accounting standards were social-choice mechanisms and need to be open to political representation. The IASC structure is more open to the expression of Canadian business and accounting interests at this time.

3.3 THE DEGREE OF HARMONIZATION AMONG STANDARDS

There is a growing body of literature that demonstrates that different sets of accounting standards are equally informative to the market. Baumol and Malkiel[17], for example, demonstrate that analysts specializing in foreign stocks cannot outperform international stock indices, implying that there are no significant information asymmetries in foreign financial information for them to exploit. Chan and Seow[18] go even further and demonstrate that there is a loss of information in translating foreign accounting reports into U.S. GAAP. Aldford, *et al*[19], however, do find some differences in the market reaction to disclosures to different markets, but this result may reflect differences in market structures rather than differences in how informative the disclosures themselves are (e.g., differences in insider trading, etc.).

These results suggest that the market may not care about the set of accounting standards that are applied (presumably above some minimum level of disclosure). This suggests that the more important question may be differences in the costs of compliance with accounting standards and the costs of generating change in those standards. The

17. Baumol, W. and Malkiel, B., "Redundant Regulation of Foreign Security Trading and U.S. Competitiveness," *Journal of Applied Corporate Finance*, V5 (1993): 19-27.
18. Chan, K.C. and Seow, G. S., "The Association Between Stock Returns and Foreign GAAP Earnings Versus Earnings Adjusted to U.S. GAAP," *Journal of Accounting and Economics,* V21 (1996): 139-158.
19. Aldford, A., Jones, J., Leftwich, R. and Zmijewski, M., "The Relative Informativeness of Accounting Disclosures in Different Countries," *Journal of Accounting Research,* V31 (1993): 183-223.

costs of compliance with different standards is difficult to determine[20]. The direct cost of preparing and distributing information based on different standards is likely to be small compared with the indirect costs associated with the contractual use of information (e.g., the effect of different standards on the ratios used as constraints in debt contracts) or the social and market implications of disclosure of sensitive information. We have not attempted to estimate these costs.

Our analysis focuses on two issues. First, are there significant differences between the sets of standards under consideration (i.e., CICA, FASB and IASC)? We assume that firm-specific costs of compliance are highest where managerial discretion in reporting is lowest and that the changes in the administrative costs of compliance are highest where the alternative standards differ most from current standards. Second, are these sets of standards moving towards harmonization? The choice between FASB and IAS may be moot if these two sets of standards are moving towards harmonization. Should a long-run trend remove technical differences, then the choice between FASB and IAS as a basis for Canadian standard setting will rest on process issues or political issues, issues beyond the standard-setting environment proper.

3.3.1 CANADIAN GAAP VERSUS IAS

The emergence, on a global level, of open market economies suggests the need for the free flow of capital across national borders. Paradoxically, the existence of different sets of national accounting standards, meant to improve capital market efficiency, have worked at cross purposes to a free flow of capital transnationally. The IASC was created in 1973 to pursue the harmonization of accounting standards internationally. At the same time that the IASC was pursuing its objective, FASB standards were gaining increased recognition at the international level. This recognition was a result of the importance of U.S. capital markets globally.

Canada's initial approach to international accounting standards harmonization was to work in conjunction with the IASC to minimize differences between Canadian GAAP and IAS. The eventual results of these harmonization efforts are documented in Section 1501 of the *CICA Handbook*. The adoption, in 1995, of Section 1501 permitted Canadian firms to take advantage of benefits stemming from situations where Canadian GAAP and IAS were in agreement. Cherry and Fleming (1996:58 — see note 11) observed that there were very few differences between IAS and Canadian accounting standards that could not be avoided through "a judicious selection among the alternative treatments available under IAS or Canadian GAAP." In addition to the comparison and co-ordination related benefits that common standards provide, compliance with IAS enhanced the legitimacy of financial information proffered by Canadian firms, particularly where international capital market participants were unfamiliar with Canadian accounting standards.

Table A in Appendix F captures some of the more notable differences between IAS and Canadian GAAP which existed in 1995. The table seems to support Cherry and Fleming's contention that there were few significant technical differences between IAS and Canadian GAAP. The relatively small number of significant technical differences

20. Biddle, G.C. and Saudagaran, S.M., "Foreign Stock Listings: Benefits, Costs and the Accounting Policy Dilemma," *Accounting Horizons,* V5 (1991): 69-80.

between the standards is not surprising given the time and energy devoted to harmonization initiatives. Furthermore, the latitude for the application of professional judgment that both sets of standards embrace suggests broad, general approaches to accounting regulation. The cost of compliance associated with a switch from Canadian GAAP to IAS should be low given that (1) few significant technical differences exist; (2) disclosure requirements are broadly comparable; and (3) opportunities for managerial discretion are generally similar under each set of standards.

The current status (mid-1999) column of Table A indicates that further harmonization of Canadian GAAP and IAS occurred during the period from 1995 to 1998. Much of that progress stems from revisions to IAS or the development of IAS where none previously existed. Some of the progress stems from joint efforts undertaken by the IASC and national standard-setting bodies, such as the CICA. Interestingly, much of the harmonization activity was IASC-driven. We return to this observation later in our discussion.

3.3.2 CANADIAN GAAP VERSUS FASB

Notwithstanding Canada's commitment to IASC objectives, by 1995 a large share of Canadian standard-setting resources were reallocated to addressing differences between Canadian and U.S. GAAP. One source of pressure for this narrower approach to accounting standards harmonization was that some of the larger clients of the accounting firms believed themselves to be disadvantaged by certain Canadian standards. Canadian companies, which were required to use the purchase method to account for their acquisitions, were perplexed by the wider access to pooling which existed in the United States. The purchase method's requirement to revalue assets of the combined entity to fair values suppresses earnings when increments to fair value are amortized in future years. Canadian firms also felt disadvantaged by standards requiring the capitalization of development costs. U.S. standards eschew the matching principle embraced by Canadian standards and permit current period expensing of most development costs. Canadian high-tech companies find themselves saddled with the amortization of development costs and favour a U.S. approach on this issue. Finally, some companies believe the Canadian requirement for deferral and amortization of foreign exchange gains and losses on long-term monetary items results in unfair comparisons between Canadian and U.S. firms.

The Joint Study Group report[21], which followed quickly on the heels of NAFTA, specifically addressed the costs of inconsistent North American accounting standards, and was another source of pressure for the harmonization to U.S. GAAP. It states on page 1:

> *Financial statements are an important means of communication about the distribution and use of economic resources by an enterprise. As such they need to be readily understood by an informed reader. When different accounting treatments are permitted or required for essentially the same event or transaction, the chances of the information provided by the financial statements being misunderstood are increased.... Differences in accounting standards also can result in increased costs for companies in that they may be required to provide reconciliation(s) between the results of operations or financial position or both derived from following their home country standards and those that would be derived from following [other] standards....*

21. *Financial Reporting in North America,* a 1995 report prepared jointly by accounting standard setters from Canada, Mexico and the United States, available from the CICA, Toronto.

Table B in Appendix F captures the status of differences between U.S. and Canadian GAAP that existed in 1995. Generally speaking, Canadian accounting standards have tended to be less prescriptive and rule-oriented than similar U.S. standards, thereby providing more room for the application of professional judgment. With an increased harmonization to U.S. GAAP, some of the room for managerial discretion that Canadian standards have traditionally provided will be eroded. The strict guidance in application and the more extensive disclosure requirements which characterize U.S. standards suggest that the compliance costs associated with a harmonization to U.S. GAAP will be higher than those associated with a harmonization to IASC standards.

Regardless of the higher costs of compliance associated with a move to U.S. GAAP, Table B indicates substantial progress between 1995 and 1998 in reducing the differences between U.S. and Canadian standards. The recent trend of some large Canadian firms to report in accordance with U.S. GAAP, which we noted earlier, provides some evidence that Canadian firms find the benefits of complying with U.S. GAAP to outweigh the costs associated therewith. Presumably, the higher compliance costs associated with both diminished managerial discretion and some significant technical differences are offset by other benefits (e.g., lower costs of capital) associated with a harmonization to U.S. GAAP. Furthermore, should the structure and content of IAS converge on FASB-type structure and content, differences in the cost of compliance related to technical discrepancies will effectively disappear.

3.3.3 IAS VERSUS FASB

Table C in Appendix F captures the major differences between IAS and U.S. GAAP that existed in 1995. Comparisons presented in the table indicate that, at a general level, U.S. standards were more prescriptive and rule-oriented than IAS, reflecting the relatively more litigious environment surrounding financial information in the U.S. The protection of investor rights and the need for auditors to avoid liability claims has lent U.S. standards a rule-based orientation, an orientation where reliability often triumphs over relevance. The more descriptive IAS provide greater room for the application of professional judgment than their U.S. counterparts. Disclosure requirements in the U.S. also tend to be more extensive than disclosure requirements under IAS. Both the "true and fair" override and the use of dual standards (benchmarks and alternatives) are examples of the flexibility inherent in IASC standards. The degree of flexibility which an IASC approach to standard setting permits represents a significant divergence from the FASB approach.

Notwithstanding some of the general differences in standard-setting approaches noted above, progress has been made in reducing differences between IAS and U.S. standards. Some of that progress stems from joint efforts undertaken by the FASB and the IASC and some from efforts of the G4+1[22]. Although national standard setters cooperated with the IASC, much of the harmonization activity was IASC-driven. IASC leadership stemmed from its desire to garner support for its "core standards".[23]

As we mention in our comparison of Canadian GAAP and IAS where "like accounting for like circumstances" existed across national borders, consensus on a common standard

22. The G4+1 are the national standard-setting bodies of Australia/New Zealand, Canada, U.K. and U.S. with observers from the IASC.
23. The IASC web site explains that in 1993, the International Organization of Securities Commissions (IOSCO) agreed on the necessary components of a reasonably complete set of accounting standards (core standards) that would comprise a comprehensive body of principles for enterprises undertaking crossborder offerings and listings. Successful development of a set of comprehensive core standards that are acceptable to IOSCO's Technical Committee will allow the Committee to recommend endorsement of IAS for cross border capital raising and listing purposes in all global markets.

(IAS) was relatively easy to achieve. Where there was diversity in approach, reaching consensus became more problematic. One means of achieving a common standard was to adopt both a benchmark and alternative treatment(s) for the accounting issue. Another solution was to keep the tone of the standard broad and general. The resulting flexibility has been a sore point with the SEC, which claims that such flexibility weakens the protective function of standards, and in particular IAS. Accordingly, the SEC has long resisted allowing firms listed on U.S. stock exchanges to prepare financial statements solely under IAS. That position is reflected in the following quote:

> *Acceptance of IASC by the SEC is not a foregone conclusion. Their acceptability to U.S. investors will depend on how well those standards measure up to our own. IASC need not reproduce the words of U.S. GAAP — but they must yield the same results in terms of credibility and integrity.*[24]

3.3.4 LONG-RUN TRENDS IN HARMONIZATION

What is the long-run trend in harmonization likely to be? Earlier we noted that should the technical differences between alternative standards disappear, the choice between FASB standards and IAS will become one of process or politics or both. Tables A through C in Appendix F suggest the following: (i) continued co-operation among national, regional and international accounting standard setters; (ii) the continued revision of older IAS and the vigorous issuance of new IAS; and (iii) a continued attempt to increase the functional benefits associated with Canadian accounting regulation by actively harmonizing Canadian standards with those found in the United States.

Tables B and C also suggest convergence on a more prescriptive approach to standard setting, an approach characteristic of FASB standards. The prescriptive approach which has been evident in recent IAS stems from a recognition that a common operationalization of IAS in countries with varying social, legal and economic environments no longer permits the standards to be as simple or as brief as past standards[25]. Furthermore if the IASC is to gain IOSCO[26] approval for its core standards, the standards will have to more closely resemble prescriptive FASB standards and provide more guidance than the set of IAS which existed as recently as 1995.

Curiously, at about the same time that the IASC's shift to prescriptive standards was taking place, a shift in the conceptual foundation underlying U.S. standards was emerging as well. The upshot of that conceptual shift is that, although historical cost remains as the primary accounting convention in the United States, more and more FASB standards have come to embrace the "fair value" approach currently favoured by the IASC.

In summary, IAS standards have begun to embody a scale of prescription approaching that found in existing U.S. standards, and U.S. standards are moving toward the "fair value" convention that underlies many IAS. There is evidence of ongoing international cooperation to reduce technical differences. Indeed, the current agenda of the G4+1 might well be viewed as confirmation of the determination of national standard setters and the IASC to work cooperatively to eradicate residual technical differences. All of which suggests that, over the long run, the choice between FASB and IASC standards will turn on issues of process and/or politics as opposed to the costs of compliance associated with a standard-setting regime.

24. SEC chairman Arthur Levitt commenting at a 1997 AICPA conference.
25. Holgate, P., "Looking Forward to 21st Century Accounting," *Accountancy - International Edition,* April 1997: 73-74.
26. IOSCO is the International Organization of Securities Commissions.

3.3.5 SUMMARY: CONVERGENCE INEVITABLE

Our review of the differences between IAS, U.S. GAAP and Canadian GAAP indicates substantial harmonization particularly over the last five years. If our assumption — that the cost of compliance is related to the restriction of managerial discretion in reporting — is valid, then IAS (as they currently exist) may provide a lower cost set of standards than current U.S. GAAP. This will be true particularly with regard to small and medium-sized businesses. The differences between IAS and U.S. GAAP are disappearing, however, with both sets of standards converging towards a point resembling U.S. GAAP, although not identical thereto. In the long run, the anticipated similarity of process and technical characteristics between the sets of standards will mean that the costs of compliance with, and maintenance of, accounting standards will not be significantly different. The cost per user will, of course, depend on the size of the community which adopts each set of standards.

4 Conclusions

4.1 THE FUTURE OF INTERNATIONAL STANDARDS

Our analysis leads to two paradoxical conclusions with respect to the future of international accounting standards. First, in the long run the IASC will emerge as the source of international accounting standards. This body has established its legitimacy across a wide number of countries and has developed a credible record in the development of standards. Second, in the long run, the prescriptive standards which are the trademark of FASB will become characteristic of IAS and the process of standard setting at the IASC will move towards the judicial model which emphasizes the impartiality of standard setters rather than their political accountability. (In essence, the political aspect of the process will move from the decision-making process proper to the appointment process for members of the standard-setting board.)

The anticipated technical convergence of IAS and FASB standards means that the choice between these bodies in terms of their consequences for Canadian businesses and the accounting profession is moot. The convergence of processes also means that Canada's ability to influence the standard-setting process will be roughly equal. There are, however, two issues which must be considered regarding how best to position the Canadian profession during this transition: the process by which convergence will occur and the degree of reciprocity which will exist between IASC and FASB standards.

If FASB and IASC standards are harmonized such that IAS are acceptable to the SEC in the United States, IAS will likely be accepted for all filings by foreign companies in the United States. It is unlikely, however, that FASB would disappear[27]. A U.S. GAAP will continue to apply to U.S. companies. In this situation, however, it is unlikely that FASB standards will become any more acceptable to foreign exchanges than they are today. This suggests that while compliance with IAS will imply compliance with FASB, the reverse may not be true. Non-U.S. companies listed in the United States and other countries will find it economically advantageous to comply with IAS for all their filings. If this scenario is correct, then a decision by Canada to commit to harmonization with U.S. standards (FASB) may limit the acceptability of Canadian standards to these two countries.

This long-term scenario does not overcome the problem that the United States is currently Canada's major capital supplier and, hence, companies wanting access to that market must file statements in accordance with (or provide a reconciliation to) U.S. GAAP. The available evidence suggests however that the small number of companies to which this applies have already concluded that the costs of the duplicate filings necessary to overcome this problem are worth the effort. Such companies will likely continue to follow a duplicate filings (or reconciliation) route regardless of Canada's decision on the future of national standards.

27. Hegarty, J., "Accounting for the Global Economy: Is National Regulation Doomed to Disappear?," *Accounting Horizons*, Dec. 1997: 75-90 (see particularly p.89); see also Hutchinson, I., Richardson, A.J. and Zheng, S., "Moved: That the Internationalization of Accounting Has Made/Will Make National Regulation Irrelevant," Canadian Academic Accounting Association, Annual Conference, May 1998.

4.2 THE POLITICS OF CANADIAN STANDARD SETTING

If our analysis of the future of international standard setting is sound, then the choice of FASB versus IAS standards for Canada will not be made on technical grounds. The issue of broader concern, however, is how the process of harmonization will occur and how Canada can best position itself in this situation. The CICA TFOSS report has recommended harmonization of standards with FASB. This recommendation probably reflects several factors:

a) the clear economic dominance of the United States over Canada;
b) pressure from large Canadian firms and auditors;
c) a belief that global accounting standards will more closely resemble FASB standards than IASC standards;
d) the experience of the CICA in working within the U.S. institutional structure (e.g., joint projects with FASB and reciprocity negotiations with the American Institute of CPAs).

The CICA also recommends maintaining an active role in the IASC and IFAC. This position is likely tempered by a recognition that the CICA will have little formal influence on FASB and wish to be seen as an independent national standard setter.

If IASC standards are destined to become global accounting standards, then the TFOSS position can be seen as a potential impediment to achieving this goal. The U.S. might view a Canadian endorsement of U.S. standards as evidence of the benefit of holding firm on its approach standard setting. Such an entrenchment has its benefits, for the longer the FASB can defend its standards on the world stage the more leverage it will enjoy with respect to moving the IASC's approach to standard setting closer to its own. Furthermore, the longer it takes to arrive at an agreed set of global standards, the longer the United States will be able to operate from its extant power position in negotiations at the international accounting standard-setting table. This influence will stem from the number of foreign companies that will be reconciling their accounts to U.S. GAAP in order to access U.S. capital markets. In short, a Canadian harmonization to U.S. GAAP has the potential to (1) lengthen the transition to "world standards"; and (2) needlessly sustain an avoidable layer of transaction costs. The potential for such undesirable outcomes suggests that Canada should consider the benefits of assuming a longer-run and more international stance with respect to the standard-setting process.

Finally, the TFOSS document makes it very clear that the changes in the CICA standard-setting process are being driven by financial considerations. The document walks a fine line between seeking to maintain control of the standard-setting process while broadening the base of organizations/individuals who provide financial support for the standard-setting process. This provides an opportunity to move the accounting standards process toward greater independence from the profession, perhaps through the creation of an accounting standards board analogous to FASB, funded through a foundation that receives funds from a variety of sources but operates at arm's length. This would also entail redefining Canadian GAAP as being a source other than the *CICA Handbook*.

4.3 IMPLICATIONS AND RECOMMENDATIONS

The foregoing analysis and the available evidence suggests that:

(1) FASB and IASC standards are broadly similar and converging, but the *process* of standard setting is a key difference. The difference in process reflects two views of accounting

standards. The FASB approach treats accounting standards as technical phenomena to be decided without regard to political concerns. The IASC approach treats accounting standards as social-choice mechanisms to be decided by political representatives and through negotiation. Recent efforts by the IASC to satisfy the SEC and the FASB, however, will likely result in changes to the IASC process, making it more like that used by the FASB.

(2) In the short run the economic ties between Canada and the United States suggest that NAFTA is the appropriate community of interest with respect to accounting standards. However, the rate of development of other nations and the liberalization of world trade suggests that, in the long run, a broader community than the NAFTA community is relevant. The need for global standards has been recognized by all accounting standard-setting bodies including the FASB. Canada's decision to adopt FASB standards may increase the costs to Canada of moving to global standards and slow the transition to such standards.

(3) There is a higher cost of compliance associated with FASB standards than with IASC standards, although importantly the empirical research to date suggests little difference in information content. The current technical differences between the IASC and the FASB reflect FASB's development to suit U.S. economic and legal environments. The IASC standards have been developed to be more generally applicable and, therefore, more flexible.

Based on these conclusions we recommend that:
(1) Canada maintain a domestic standard-setting body to work with the international standard-setting community and to legitimate any standards or variations on standards adopted in Canada. To date, Canada has been an important player in the development of accounting standards and this role should be transferred to the international sphere.

(2) Canada develop a standard-setting body more broadly representative of Canadian professional and business interests to offset the emphasis on technical issues characteristic of the FASB and likely to be the key concern of a reorganized IASC. We believe that accounting standards are social choice mechanisms. There must, therefore, be some effective mechanism in any new standard-setting process to allow interest groups to affect the variant of international standards adopted in Canada. This change is also consistent with the CICA's recognition that the standard-setting process is too expensive to be financed by a single private organization.

(3) Canada should commit to the use of IAS. Canada has an opportunity to take a leadership role in the development of global accounting standards and should avoid short-run decisions, which increase the time and the net costs of achieving global harmonization. IAS also provide the flexibility for the majority of domestically focused firms to avoid the higher costs of FASB standards while allowing those firms who wish access to U.S. capital markets to conform to both FASB and IASC standards.

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Appendices

APPENDIX A: STATISTICAL EVIDENCE ON CANADIAN TRADE AND SOURCES OF CAPITAL[1]

TABLE 1: PORTFOLIO INVESTMENT IN CANADIAN MONEY MARKET INSTRUMENTS BY SOURCE ($MILLIONS)

Date	*U.S.*	*U.K.*	*Other EU*	*Japan*	*Other OECD*	*All Others*	*Total*
1976	1,639	248	201	0	0	155	2,242
1981	3,397	100	139	56	305	325	4,321
1986	4,503	101	274	66	898	2,090	7,931
1991	11,090	4,617	1,675	2,068	4,055	7,031	36,104
1996	18,902	5,590	2,545	651	3,475	8,305	39,468

TABLE 2: PORTFOLIO INVESTMENT IN CANADIAN STOCKS BY SOURCE ($MILLIONS)

Date	*U.S.*	*U.K.*	*Other EU*	*Japan*	*Other OECD*	*All Others*	*Total*
1976	4,297	867	546	180	279	219	6,389
1981	10,388	1,584	834	275	426	335	13,841
1986	13,047	1,476	849	349	305	223	16,249
1991	15,958	683	358	46	355	245	17,644
1996	38,345	1,037	707	121	432	1,032	41,674

TABLE 3: PORTFOLIO INVESTMENT IN CANADIAN BONDS BY SOURCE ($MILLIONS)

Date	*U.S.*	*U.K.*	*Other EU*	*Japan*	*Other OECD*	*All Others*	*Total*
1976	21,561	1,198	3,184	1,213	2,578	606	30,340
1981	40,676	2,297	10,619	2,659	7,922	3,012	81,506
1986	49,268	7,082	26,458	28,999	27,662	3,892	143,362
1991	68,088	21,502	33,165	45,047	33,290	14,462	215,555
1996	163,879	34,276	48,436	46,530	34,729	28,273	356,123

TABLE 4: FOREIGN DIRECT INVESTMENT IN CANADA BY SOURCE ($MILLIONS)

Date	*U.S.*	*U.K.*	*Other EU*	*Japan*	*Other OECD*	*All Others*	*Total*
1976	32,726	4,165	2,799	293	1,003	637	41,623
1981	53,777	6,635	5,861	1,000	1,677	1,377	70,327
1986	69,241	11,317	7,526	2,679	2,709	2,582	96,054
1991	86,396	16,224	14,908	5,596	6,803	5,308	135,234
1996	122,722	14,168	24,093	6,480	6,290	6,641	180,394

Source, Tables 1-4: *Canada's International Investment Position,* published by Statistics Canada.

1. EU stands for European Union; OECD stands for Organization for Economic Co-operation and Development.

TABLE 5: CANADIAN EXPORTS OF ALL PRODUCTS IN $US

	1993	1994	1995	1996	1997
			Value in Millions of U.S. Dollars		
United States	110,488	126,696	143,144	153,138	165,473
Japan	6,536	7,055	8,669	8,120	7,773
United Kingdom	2,204	2,324	2,738	2,815	2,595
South Korea	1,323	1,617	1,965	2,036	2,081
Germany	1,887	1,615	2,307	2,318	1,896
China (including Mongolia)	1,182	1,556	2,399	2,103	1,567
Netherlands	1,031	872	1,159	1,169	1,178
Hong Kong	479	664	1,006	871	1,164
Taiwan (Taipei)	778	881	1,241	1,004	1,136
Brazil	585	700	934	980	1,053
SUBTOTAL	126,494	143,980	165,562	174,554	185,915
OTHERS	11,216	12,170	5,427	15,591	15,512
TOTAL (ALL COUNTRIES)	137,710	156,150	180,989	190,145	201,427

Source: Industry Canada, based on data from Statistics Canada Report Date: 04-November-1998

TABLE 6: CANADIAN IMPORTS OF ALL PRODUCTS IN $US

	1993	1994	1995	1996	1997
			Value in Millions of U.S. Dollars		
United States	88,265	100,550	109,825	115,177	132,485
Japan	8,309	8,321	8,812	7,656	9,035
Mexico	2,876	3,313	3,899	4,425	5,034
United Kingdom	3,468	3,684	3,989	4,332	4,641
China (including Mongolia)	2,402	2,823	3,380	3,613	4,550
Germany	2,731	3,210	3,497	3,537	3,892
France (includes Monaco and Andorra)	1,764	1,840	2,275	2,495	3,710
Re-Imports (Canada)	2,414	2,579	2,823	3,078	3,241
Taiwan (Taipei)	2,035	2,036	2,034	2,092	2,504
Norway	795	1,218	1,686	2,037	2,363
SUBTOTAL	115,058	129,575	142,220	148,441	171,454
OTHERS	16,707	18,849	22,151	22,183	24,648
TOTAL (ALL COUNTRIES)	131,765	148,424	164,371	170,624	196,102

Source: Industry Canada, based on data from Statistics Canada Report Date: 04-November-1998

APPENDIX B: ADOPTION OF IAS AND FASB STANDARDS BY STOCK MARKETS AND NATIONAL REGULATORS

ALBANIA IFAC Member: No; Stock Exchange: - ; Accounting Principles: -

ARGENTINA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

ARMENIA IFAC Member: No; Stock Exchange: - ; Accounting Principles: -

AUSTRALIA IFAC Member: Yes
Stock Exchange: The Australian Stock Exchange allows foreign issuers to use Australian GAAP (that is, standards adopted by the Australian Accounting Standards Board) or another set of accounting standards acceptable to ASX. A note to the relevant listing rule cites International Accounting Standards as the only example of "acceptable" non-Australian GAAP. ASX policy is to accept national standards that are based on IAS (such as those of Hong Kong, Singapore, and Malaysia) or that are largely compatible with IAS (such as those of the U.K.). The Australian Stock Exchange has allowed debt issuers to use U.S. GAAP without reconciliation to Australian GAAP, although the Australian Securities and Investments Commission has lately requested U.S. issuers to follow Australian GAAP. Domestic issuers must follow Australian GAAP.
Accounting Principles: The Australian Accounting Standards Board (AASB) operates under the Australian Securities Commission. AASB develops and approves accounting standards, which have the force of law. Development of the Standards has been delegated to the Australian Accounting Research Foundation.
As part of a review of Australian corporation law, the country's Treasurer has proposed the following: Starting January 1, 1999, a new Australian Accounting Standards Committee (AASC) will replace the existing AASB. AASC will operate under a new Financial Reporting Council, which will set the broad strategic direction for the AASC, approve and monitor its priorities and business plan, and oversee its operations. AASC will issue exposure drafts identical to those issued by the IASC. Subject to any modifications required by Australian law, the final standards would also be the same as those of the IASC. The move to adoption of IAS would be conditional on the Government being satisfied, in light of advice from the FRC, that this would be in Australia's best interests and that International Accounting Standards had gained a satisfactory level of acceptance in major overseas capital markets.

AUSTRIA IFAC Member: Yes
Stock Exchange: Wiener Bourse (the Vienna Stock Exchange) is requiring all companies listed on the A-Market and the Austrian Growth Market to submit either (a) consolidated financial statements that follow either IAS or U.S. GAAP; or (b) their national financial statements with a reconciliation to either IAS or U.S. GAAP. IAS or U.S. GAAP statements are permitted starting the fourth quarter of 1998 and are required by 2000.
Accounting Principles: The Austrian commercial code prescribes accounting practices for Austrian companies and requires compliance with the EC Directives. In January 1999, the Parliament of Austria enacted a law that allows all Austrian companies to follow IAS or another internationally recognised body of accounting standards, rather than the Austrian commercial code accounting, in preparing their consolidated financial statements for domestic reporting purposes, provided that:
- the statements also comply with the EC Directives;
- the statements disclose the basis of accounting used and any significant differences from Austrian law; and
- the information value is deemed at least equivalent to that that would result from complying with Austrian law, and the auditor's report so states.

The law is effective for financial years beginning 1 January 1998 or later.

BAHAMAS IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

BAHRAIN IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

BANGLADESH IFAC Member: Yes
Stock Exchange: All companies listed on the Chittagong Stock Exchange must follow International Accounting Standards.
Accounting Principles: -

BARBADOS IFAC Member: Yes; Stock Exchange: -
Accounting Principles: Effective January 1, 1996, The Institute of Chartered Accountants of Barbados (ICAB) fully adopted all International Accounting Standards as issued by IASC as the "benchmark" for generally accepted accounting principles in Barbados. Previously, many of those standards had been adopted on a selective basis as approved by the Council of the Institute.

BELGIUM IFAC Member: Yes
Stock Exchange: Brussels Stock Exchange allows IAS financial statements. Domestic companies with significant foreign operations or foreign capital sources may follow IAS as well for consolidated financial statements. EASDAQ (European Association of Securities Dealers Automated Quotation) Exchange allows IAS for all listed companies. EASDAQ's rule book published in October 1996 states that annual and quarterly financials of listed companies should be in accordance with one of the following standards:

- International Accounting Standards;
- the accepted standards of the issuer's home state (if the issuer is incorporated in, or has registered offices, in the European Union) with a reconciliation to International Accounting Standards; or
- U.S. GAAP (issuers whose financial instruments were first, and continue to be, traded on NASDAQ, and issuers intending to seek admission of their financial instruments to trading on a U.S. Stock Exchange or securities market, or to offer them in the United States).
  Accounting Principles: Under Belgian Law, the King has authority to prescribe the form and content of financial statements. To implement that authority, the King has created a Commission for Accounting Principles.

BOLIVIA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
BOTSWANA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: IAS are recommended, although there is no legal requirement to apply them.
BRAZIL IFAC Member: Yes; Stock Exchange: - Accounting Principles: The Brazilian Institute of Accountants [IBRACON] issues accountants standards influenced by IAS. The introduction to the standards handbook states: "IBRACON is a member of the IFAC and IASC and has taken an active part in the projects undertaken by the two entities. However, IBRACON itself has issued a series of pronouncements concerning accounting and audit that are in resonance with Brazil's own reality...[the IAS pronouncements] do not take precedence of those of IBRACON because, among other reasons, there is a similarity between them. The publication of the IASs furnishes a wider source of consultation and study, and should contribute to the improvement and perfecting of our own standards of accounting and auditing." The Securities Commission Law of 1976 established a Brazilian Securities Commission which has the power to issue regulations regarding financial accounting standards.
BRUNEI IFAC Member: No; Stock Exchange: - Accounting Principles: The Brunei Darussalam Institute of Certified Public Accountants has begun to develop accounting standards.
BULGARIA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
CAMBODIA IFAC Member: No; Stock Exchange: - Accounting Principles: In 1998 Cambodia established a new accounting standards committee that intends to issue standards based on IAS.
CANADA IFAC Member: Yes Stock Exchange: For the Toronto Stock Exchange, Montreal Stock Exchange, Vancouver Stock Exchange, and Alberta Stock Exchange, all registrants must submit financial statements that follow Canadian GAAP. Accounting Principles: The Canada Business Corporations Act and various provincial corporation acts require financial statements to be prepared in conformity with generally accepted accounting principles. By regulation, GAAP is defined as the principles set out in the Handbook of the Canadian Institute of Chartered Accountants. For public companies, several of the provincial securities commissions have supplemented the CICA Handbook with additional disclosure provisions. Accounting Standards in the CICA Handbook are set by the Accounting Standards Board of the CICA.
CAYMAN ISLANDS IFAC Member: No; Stock Exchange: - ; Accounting Principles: -
CHILE IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
CHINA, PEOPLE'S REPUBLIC IFAC Member: Yes Stock Exchange: Companies that have issued B-Shares [these trade in China and overseas] must follow IAS. Companies that have issued H-Shares [these trade in Hong Kong only] may follow either IAS or Hong Kong accounting standards. Companies that have issued A-Shares [these trade in China only] must follow accounting standards promulgated by the PRC Ministry of Finance. Accounting Principles: The Ministry of Finance has responsibility for promulgating "Accounting Standards for Business Enterprises." Members of the Chinese Institute of CPAs must state in their audit reports whether or not the reporting enterprise has complied with those Accounting Standards for Business enterprises. China has set a target for all enterprises to be subject to an independent CICPA audit by the year 2000. China has announced a policy of developing new Accounting Standards for Business Enterprises in harmony with IAS.
COLOMBIA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
COSTA RICA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
CROATIA IFAC Member: Yes Stock Exchange: Zagreb Stock Exchange requires IAS financial statements for both domestic and foreign enterprises. Accounting Principles: The Croatian Accounting Act fully recognises IAS for both domestic and foreign companies. To be used in Croatia, IAS have to be first printed in the National Gazette of the Republic of Croatia.
CYPRUS IFAC Member: Yes Stock Exchange: Cyprus Stock Exchange allows IAS financial statements for foreign companies. Accounting Principles: The Institute of Certified Public Accountants of Cyprus adopts all IAS, and has done so since 1981.
CZECH REPUBLIC IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
DENMARK IFAC Member: Yes Stock Exchange: Copenhagen Stock Exchange allows IAS financial statements for foreign companies. Accounting Principles: Danish accounting principles are contained in the Accounting Law of 1981 as amended. That Law follows the EU Fourth and Seventh Directives. Banks, insurance companies, and certain mortgage and loan institutions follow separate industry laws. The Danish Institute of State-Authorized Public Accountants (FSR) became a member of the International Accounting Standards Committee (IASC) in 1976. Since then the FSR has issued all IASC standards with a Danish translation and a special preface prepared by the accounting committee of the FSR. This preface includes comparison of all significant differences from Danish accounting regulations, including the Accounting Law and accounting practices generally accepted in Denmark.Generally, Danish accounting standards in the law do not deviate significantly from IASC standards. The FSR issues guidelines as supplements to the accounting law. These guidelines closely follow the similar IASC standards except when the IASC standards contravene the Danish regulations.

DOMINICAN REPUBLIC IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
ECUADOR IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
EGYPT IFAC Member: Yes Stock Exchange: All companies listed on the Cairo Stock Exchange must follow IAS. Accounting Principles: Applying IAS is mandatory for all companies reporting to the Capital Market Authority under the provisions of Law 95 (Capital Markets Law) in Egypt. This includes all companies listed on the Cairo Stock Exchange as well as all specialised investment companies. Commencing 1998, most other companies in Egypt are required to comply with Egyptian Accounting Standards, which are, in all material respects, the same as IAS. Egyptian Accounting Standards are issued by the Egyptian Society of Accountants and Auditors (ESAA) and are, essentially, Arabic versions of IAS. The preface to Egyptian Accounting Standards states: "The Egyptian Accounting Standards (EAS) have been prepared to comply with the International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC) except for certain minor differences to adapt the Standards to the Egyptian economic environment." EAS have also been adopted as part of the Uniform Accounting System that forms the basis of financial reports prepared by government-owned enterprises.
EL SALVADOR IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
ESTONIA IFAC Member: No Stock Exchange: Tallinn Stock Exchange allows IAS financial statements. Accounting Principles: The Estonian Accounting Law (effective date 01.01.95) merges legal directives with IASC treatments. By law, the Estonian Accounting Board, an independent governmental body, is responsible for standard setting in Estonia. The guidelines issued by the Board (Estonian GAAP) are in conformity with IASC and must be applied when drawing up separate and consolidated accounts. To date guidelines covering IAS 1-10, 13, 16-18, 20-25, 27, 28 have been issued. IAS 11, 12, 34, and 33 will be approved and issued during the third quarter of 1998. Estonian listed companies prepare their accounts in accordance with Estonian GAAP. Estonian GAAP does not allow for alternative treatments. If no Estonian guidance has been issued on a particular issue, the IAS standard in effect shall be applied.
FIJI IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
FINLAND IFAC Member: Yes; Stock Exchange: - Accounting Principles: The Finnish Accounting Board, an agency of government, develops accounting principles under the Accounting Act of 1992. Also, the Association of Authorised Public Accountants has an accounting committee that advises the Board. Finnish accounting standards generally are based on IAS.
FRANCE IFAC Member: Yes Stock Exchange: Paris Stock Exchange allows IAS financial statements allowed for foreign listed companies. Domestic companies may follow IAS as well for consolidated financial statements. Accounting Principles: Listed French companies are allowed to elect to follow IASC Standards in their consolidated financial statements for domestic reporting purposes. U.S. GAAP is also be permitted until 2002, provided that an official translation into French is published and approved.
GEORGIA IFAC Member: No; Stock Exchange: - Accounting Principles: The National Bank of Georgia, in co-operation with the Association of Bankers of Georgia, has begun a programme to develop a set of guidelines for the introduction of IAS in commercial banks.
GERMANY IFAC Member: Yes Stock Exchange: Deutsche Börse, Frankfurt Stock Exchange, Bavarian Stock Exchange, and Stuttgart Stock Exchange all allow IAS financial statements. Domestic companies may follow IAS as well for consolidated financial statements. Accounting Principles: A 1998 law, aimed at making the capital markets in Germany more competitive, allows companies whose securities are publicly traded to prepare their consolidated financial statements, for domestic reporting purposes, using International Accounting Standards or U.S. GAAP rather than German GAAP. In 1998, Germany also created a new German Accounting Standards Committee (Deutsches Rechnungslegungsstandards Committee).
GHANA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
GREECE IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
GUATEMALA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
HAITI IFAC Member: Yes; Stock Exchange: - Accounting Principles: In September 1997, the Order of Professional Accountants of Haiti (OCPAH) passed a resolution adopting for Haiti the International Accounting Standards, subject to Haitian laws.
HONDURAS IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
HONG KONG, CHINA IFAC Member: Yes Stock Exchange: Stock Exchange of Hong Kong allows IAS financial statements. Accounting Principles: The Hong Kong Society of Accountants has an Accounting Standards Committee, which issues Statements of Standard Accounting Practice. Before they are mandatory, SSAPs must be approved by the Council of the HKSA. HKSA also recommends, but does not require, the use of IAS in the absence of local standards. It is the policy of HKSA to harmonize its standards with IAS, and a programme to do so is under way.

HUNGARY IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

ICELAND IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

INDIA IFAC Member: Yes; Stock Exchange: -
Accounting Principles: In 1977 the Institute of Chartered Accountants of India created an Accounting Standards Board which publishes accounting standards. The ASB's policy is to take IAS into consideration in developing its standards. Most of those standards conform in all material respects to IAS; those on R&D, foreign exchange, borrowing costs, banks, and business combinations do not.

INDONESIA IFAC Member: Yes
Stock Exchange: Jakarta Stock Exchange and Capital Market Supervisory Agency (BAPEPAM) requires public companies to [comply] with Statements and Interpretations of the Committee on Financial Accounting Standards.
Accounting Principles: The standard-setting body in Indonesia is Komite Standar Akuntaksi Keuangan (Committee on Financial Accounting Standards). After they issue a Statement of Financial Accounting Standards, it must be endorsed by the Indonesian Institute of Accountants, though their Interpretations need not be endorsed by IIA. Under Indonesian law, both public and private companies must company with those accounting standards. Since 1994, it has been the policy of the Committee to use International Accounting Standards as the basis for developing Indonesian standards.

IRAN IFAC Member: Yes; Stock Exchange: All companies must follow Iranian accounting principles. Accounting Principles: -

IRAQ IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

IRELAND IFAC Member: Yes; Stock Exchange: -
Accounting Principles: Accounting standards made by the Accounting Standards Board (ASB) of the United Kingdom are promulgated in the Republic of Ireland by the Institute of Chartered Accountants in Ireland, where appropriate modified to take account of the different legislative background in the Republic.

ISRAEL IFAC Member: Yes
Stock Exchange: The Tel Aviv Stock Exchange requires listed companies to follow Israeli Accounting Standards, which are in line with U.S. GAAP.
Accounting Principles: A Joint Accounting Standards Committee has been established by the Institute of Certified Public Accountants of Israel and the Securities Commission.

ITALY IFAC Member: Yes
Stock Exchange: Rome Stock Exchange allows IAS financial statements by foreign listed companies. Domestic companies may follow IAS as well for consolidated financial statements.
Accounting Principles: Italian accounting standards are established, in part, by Italian Law and, in part, by principles issued by the Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri. If neither of those two sources has addressed an issue, companies generally follow IAS. In February 1998, Italy passed a law allowing companies whose securities are publicly traded in the EU and also in a non-EU country to prepare their consolidated financial statements, for domestic reporting purposes, using International Accounting Standards if IAS are not in conflict with the EU directives and are accepted by the non-EU country. (A recent EU study showed that by appropriate choice where IAS allow alternative practices, an enterprise can comply with EU directives and, at the same time, with IAS.)

JAMAICA IFAC Member: Yes
Stock Exchange: Jamaica Stock Exchange requires all registrants to submit financial statements that follow Statements and recommendations of the Institute of Chartered Accountants of Jamaica.
Accounting Principles: -

JAPAN IFAC Member: Yes
Stock Exchange: By regulation of the Ministry of Finance, the financial statements submitted by a foreign company listed on the Tokyo Stock Exchange must be based on the accounting standards as follows:
(1) If the financial statements are the same as those used in its home country, a foreign issuer is allowed to submit these financial statements (known as "home country basis").
(2) If the financial statements used in its home country are not sufficient in disclosure quality and the issuer uses a different set of financial statements based on the different accounting standards for foreign listing purposes, the foreign issuer is allowed to submit these financial statements (known as "third country basis"). To illustrate, some Swiss companies that submit IAS financial statements for listing on the London Stock Exchange also submit financial statements based on IAS to the Tokyo Stock Exchange.
(3) If it is impossible to meet the above two criteria, the Minister of the Finance can specify the accounting standards on which the financial statements has to be based (known as "Minister of the Finance directed basis").
If financial statements based on IAS satisfy one of the above three, a foreign issuer can submit financial statements based on IAS.
Accounting Principles: Accounting standards are set by the Business Accounting Deliberation Council (BADC), an agency of the Ministry of Finance. The Japanese Institute of Certified Public Accountants issues implementation guidance. In setting new standards or revising existing rules, BADC takes into consideration IASC standards and those issued by leading national standard setters.

JORDAN IFAC Member: Yes
Stock Exchange: The Amman Financial Market requires both domestic and foreign listed companies to comply with IASC Standards.
Accounting Principles: -

KAZAKHSTAN IFAC Member: No
Stock Exchange: Kazakhstan Stock Exchange requires that all listed companies must submit financial statements that follow Kazakhstan accounting principles.
Accounting Principles: -

KENYA IFAC Member: Yes; Stock Exchange: -
Accounting Principles: In 1998, the Institute of Certified Public Accountants of Kenya resolved to adopt International Accounting Standards and phase out Kenyan Accounting Standards for financial years commencing on or after January 1, 2000, although earlier application of IAS is encouraged.

KOREA IFAC Member: Yes
Stock Exchange: For the Korean Stock Exchange, under the requirements of the Korea Securities Supervisory Board (SSB), foreign companies may submit financial statements in their own national GAAP with a note reconciling to Korean GAAP, or they may submit Korean GAAP financial statements. They may not submit IAS statements. Korean companies must follow Korean GAAP.
Accounting Principles: Financial Accounting Standards (FAS) are set by the Korean Securities and Exchange Commission subject to approval of the Minister of Finance. FAS apply to public companies and larger non-public companies. In the absence of FAS, tax laws are followed.

KUWAIT IFAC Member: Yes; Stock Exchange: -
Accounting Principles: By a Ministerial Order of 1990, IAS are adopted as national standards, with explanatory material added.

KYRGYZ REPUBLIC IFAC Member: Yes
Stock Exchange: Kyrgyz Stock Exchange requires that all listed companies must submit financial statements that follow Kyrgyz accounting principles.
Accounting Principles: -

LATVIA IFAC Member: No
Stock Exchange: Riga Stock Exchange listing rules require that all 'Official List' companies must follow IAS.
Accounting Principles: IAS are recommended, although there is no legal requirement to apply them.

LEBANON IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

LESOTHO IFAC Member: Yes; Stock Exchange: -
Accounting Principles: The Legal and Technical Committee and the Council of the Lesotho Institute of Accountants have considered IASC standards and recommended their adoption (with the exception of IAS 32). There is no legal requirement for companies to apply them.

LIBERIA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

LIBYA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

LITHUANIA IFAC Member: No; Stock Exchange: - ; Accounting Principles: -

LUXEMBOURG IFAC Member: Yes
Stock Exchange: Luxembourg Stock Exchange allows IAS financial statements for foreign companies.
Accounting Principles: -

MACEDONIA IFAC Member: No
Stock Exchange: The Macedonia Stock Exchange requires that all companies, foreign and domestic, follow IASC Standards.
Accounting Principles: -

MALAWI IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

MALAYSIA IFAC Member: Yes
Stock Exchange: Kuala Lumpur Stock Exchange allows IAS financial statements.
Accounting Principles: A new Malaysian Accounting Standards Board was created under the Financial Reporting Act 1997. It is an agency of government. It is currently going through a process of adopting existing standards issued by the Malaysian Institute of Accountants as well as beginning to develop new standards. MASB has announced that it will continue to pursue a policy of harmonisation of Malaysian accounting standards with the standards issued by the IASC.
The Malaysian Institute of Accountants has an Accounting Standards Committee that develops accounting standards that are expected to be looked to by the new Accounting Standards Board as the basis for its standards. To date, the MIA has adopted substantially all the IAS issued by the IASC, most verbatim but several with modifications. These standards are applicable to all published accounts in Malaysia.

MALTA IFAC Member: Yes
Stock Exchange: The by-laws of the Malta Stock Exchange Act of 1990 require all listed companies to publish interim (half-yearly) and yearly financial statements prepared in conformity with IAS.
Accounting Principles: Compliance with IAS is mandatory under the 1995 Companies Act for accounting periods beginning after June 30, 1996. An International Accounting Standards Advisory Board has been established by the Malta Institute of Accountants to assist members in applying IAS.

MAURITIUS IFAC Member: No; Stock Exchange: -
Accounting Principles: Accounting Standards and Guidelines are developed locally by the Mauritian Accounting and Auditing Standards Committee. IAS are used as a guide.

MEXICO IFAC Member: Yes; Stock Exchange: -
Accounting Principles: Accounting standards are set by the Accounting Principles Commission (CPC) of the Mexican Institute of Certified Public Accountants. Their pronouncements are known as Bulletins. If no Mexican standard exists, Bulletin A-8 calls for the use of International Accounting Standards or the standards in the company's home country, effective January 1, 1995. CPC also issues Circulars that contain official interpretations and recommendations, but Circulars are not mandatory. The Mexican National Securities Commission also issues rules that must be followed by public companies. On December 29, 1995, the Mexican bank regulatory agency (CNBV) issued new Mexican bank accounting principles that are consistent with IAS.

MOLDOVA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

NAMIBIA IFAC Member: Yes; Stock Exchange: -
Accounting Principles: Standards are developed locally. IAS used as a guide.

NEPAL IFAC Member: No; Stock Exchange: -
Accounting Principles: The Institute of Chartered Accountants of Nepal Act, 1996, makes the use of International Accounting Standards mandatory in Nepal.

NETHERLANDS IFAC Member: Yes
Stock Exchange: Amsterdam Stock Exchange allows IAS financial statements for foreign companies.
Accounting Principles: Accounting requirements are established by law. Additional accounting guidelines (not mandatory but strongly recommended and looked to under the law) are set by the Council for Annual Reporting (Raad voor de Jaarverslaggeving). Those guidelines are based increasingly on IAS. IAS are incorporated into the guidelines "to the extent considered acceptable and relevant".
Under the Netherlands Civil Code, a company that has multinational operations may prepare its financial statements in accordance with the GAAP of one of the member states of the European Community, as long as the financial statements still enable a sound judgement to be formed of the assets and liabilities and the results of the company.

NEW ZEALAND IFAC Member: Yes
Stock Exchange: For the New Zealand Stock Exchange, foreign companies must submit financial statements in their parent company's national GAAP. New Zealand companies must follow New Zealand GAAP.
Accounting Principles: Accounting standards are set by the Financial Reporting Standards Board (FRSB), a committee of the Institute of Chartered Accountants of New Zealand. The Companies Act of 1993 created an Accounting Standards Review Board, which is responsible for reviewing and approving standards developed by FRSB. Once approved, standards of FRSB become mandatory for all companies. ASRB can approve standards developed and submitted by other than FRSB. ASRB has statutory obligation to liaise with the Australian Accounting Standards Board, with a view to harmonising New Zealand and Australian accounting standards. All new standards must include a comparison with both Australian and IASC standards.

NICARAGUA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

NIGERIA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

NORWAY IFAC Member: Yes
Stock Exchange: Oslo Stock Exchange allows IAS financial statements for foreign registrants.
Accounting Principles: -

OMAN IFAC Member: No; Stock Exchange: -
Accounting Principles: IAS are mandatory in Oman. Sultani Decree 77 of 1986 requires all companies in the Sultanate of Oman to prepare financial statements in accordance with IASs.

PAKISTAN
IFAC Member: Yes
Stock Exchange: Karachi Stock Exchange requires that all companies must follow IASC Standards as well as comply with reporting requirements of the Companies Ordinance of 1989, the Banking Ordinance of 1964, and the Insurance Act of 1935.Lahore Stock Exchange allows both domestic and foreign companies to file financial statements using IASC Standards or U.K. GAAP.
Accounting Principles: -

PANAMA IFAC Member: Yes; Stock Exchange: -
Accounting Principles: The Accounting Technical Board ("Junta Técnica de Contabilidad," JTC, a government agency) has officially adopted the International Accounting Standards, and ordered them to be applied for accounting activities in the Republic of Panama. The decision was made via Resolution No. 4 of February 10, 1998, officially approved on March 27, 1998, and published in issue No. 23,533 of the "Gaceta Oficial," the government's official journal, dated April 30, 1998. The Resolution also orders the adoption of the "International Standards and Guides of Auditing" in the Republic of Panama.
Here is a summary of the main provisions of Resolution No. 4, regarding the adoption of IAS:
1. The international accounting standards issued by the International Commission of Accounting Standards, are adopted as "own and applicable" in the Republic of Panama.
2. The Financial Accounting Standards Commission of Panama is authorised to issue regulations for the application of IAS in Panama.
3. JTC resolves to co-ordinate with the universities, professional associations and other national and international organizations, the promulgation of IAS.

(continued on next page)

4. JTC resolves to promulgate (publish, maybe) all IAS adopted by this Resolution.
5. IAS go into effect “for those fiscal periods that begin in 1999” on.
6. JTC resolves that the national accounting standards approved by Panama (known by the acronym NOCOFIN) are to be “eliminated from the registry,” except for those that are considered applicable only in Panama.
All existing IAS are expected to be published in the Gaceta Oficial before the end of 1998, after which they will have the force of law.
Further, in September 1998 the Superintendent of Banks approved General Resolution 2-98 requiring that all banks in Panama adopt IAS as of January 1, 1999.

PARAGUAY IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

PERU IFAC Member: Yes; Stock Exchange: -
Accounting Principles: Article 223 of the General Corporate Law of Peru requires that all Peruvian companies follow generally accepted accounting principles (GAAP) in preparing their financial statements. Resolution No. 013-98-EF/93.01 under that law, approved July 17, 1998, establishes International Accounting Standards as GAAP in Peru or, in the absence of an International Accounting Standard, U.S. GAAP.

PHILIPPINES IFAC Member: Yes; Stock Exchange: -
Accounting Principles: The Accounting Standards Council (ASC) of the Philippines Institute of Certified Public Accountants issues accounting standards. ASC standards are recognised by the Philippine Securities and Exchange Commission and Central Bank of Philippines. After approval by the Board of Accountancy and the Professional Regulation Commission (government bodies), ASC standards become mandatory. The ASC’s policy is to review and adopt both existing and new IASC Standards as Philippine standards such that “compliance with Philippine GAAP would mean automatic compliance with IASC standards”.

POLAND IFAC Member: Yes
Stock Exchange: Warsaw Stock Exchange requires three years’ audited financial statements prepared in accordance with Polish 1994 Accountancy Act. Securities regulations and disclosure requirements are currently being changed. Proposed revised listing requirements specify that foreign issuers would be allowed to present their financial statements either in accordance with the Polish Accountancy Act or with IAS or U.S. GAAP.
Accounting Principles: Principles are set out in the 1994 Polish Accountancy Act, which also requires conformity with EU Directives. A Committee on Accounting Standards was established in 1997 by the President of the Polish Securities Commission under the Foundation for the Development of Capital Market Standards. The Committee consists of nine members: representatives of academics, international and local auditing firms, Ministry of Finance, Polish Securities and Exchange Commission and Polish Chamber of Auditors. That committee sets standards that must be followed in accordance with the Accountancy Act of 1994. The committee has adopted the IASC conceptual framework as the basis for formulating Polish accounting standards. The committee has concluded that in the absence of a specific Polish accounting standard, compliance with IAS is appropriate under the Accountancy Act.
In addition to standards issued by the Committee, the Chairman of Polish Securities and Exchange Commission (KPWiG) issues regulations regarding specific disclosure requirements for publicly traded companies.

PORTUGAL IFAC Member: Yes
Stock Exchange: Lisbon Stock Exchange (BVL - Bolsa de Valores de Lisboa) requires that financial statements follow Portuguese accounting standards.
Accounting Principles: Accounting standards are developed by the Ministry of Finance and the Commission for Accounting Normalisation (an independent agency of government). These standards conform to the directives of the EC and are not significantly different from IAS.

ROMANIA IFAC Member: Yes
Stock Exchange: Bucharest Stock Exchange requires that listed companies prepare their financial statements using Romanian accounting standards.
Accounting Principles: Accounting standards are issued by the Ministry of Finance after consulting the CECCAR (National Commission of Accounting Experts). CECCAR is an independent association, not an agency of the government.
The standards developed by the Ministry of Finance, other than those that apply to financial institutions, are not based on IAS. However, as a result of an agreement with the World Bank, accounting standards developed by the MOF for financial institutions are generally in compliance with IAS.

RUSSIA IFAC Member: No; Stock Exchange: -
Accounting Principles: A “Programme for the Reform of Russian Accounting” based on International Accounting Standards was approved by the government in March 1998, along the lines of a proclamation by the President of the Russian Federation in February 1997. There will be a national system of accounting standards rather than automatic adoption of IAS. The programme to develop a set of Russian accounting standards is expected to take at least three years.

SAUDI ARABIA IFAC Member: Yes; Stock Exchange: -
Accounting Principles: Accounting standards are established by the Ministry of Commerce.

SERBIA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

SIERRA LEONE IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

SINGAPORE IFAC Member: Yes
Stock Exchange: Stock Exchange of Singapore allows IAS financial statements.
Accounting Principles: Statements of Accounting Standards (SAS) are issued by the Institute of Certified Public Accountants of Singapore (ICPAS). They are developed by the ICPAS’s Accounting Standards Committee. These have usually been identical to IAS, but with occasional modifications, for example, (a) not permitting the LIFO inventory method, which is an allowed alternative under IAS 2; (b) a slightly broader *(continued on next page)*

definition of extraordinary items; (c) greater use of the completed contract method by construction contractors; and (d) allowing goodwill to be amortised over a longer period than IAS 22 permits. Several IAS have not been adopted, including IAS 15, 29, and 30. Each SAS includes an appendix that identifies any differences with International Accounting Standards. ICPAS also has a programme to adopt Interpretations issued by IASC's Standing Interpretations Committee. There is no requirement in the Companies Act for companies' financial statements to follow SAS.

SLOVAK REPUBLIC IFAC Member: No
Stock Exchange: Bratislava Stock Exchange requires IAS for foreign listed companies and Slovak Accounting Standards for domestic listed companies.
Accounting Principles: -

SLOVENIA IFAC Member: Yes; Stock Exchange: -
Accounting Principles: The Slovene Accounting Standards Committee of the Slovenian Institute of Auditors establishes Slovene Accounting Standards. Those standards are recognised under the 1993 Company Act. Slovene Accounting Standards "encompass a much wider scope than that currently covered by the IAS," including matters of financial records, bookkeeping, charts of accounts, and financial controls.

SOUTH AFRICA IFAC Member: Yes
Stock Exchange: Paragraph 8.51(a) of the Johannesburg Stock Exchange's listing requirements requires that financial statements be prepared in accordance with GAAP, but GAAP is not defined. JSE policy allows IAS financial statements or South African GAAP. As noted below, compliance with South African GAAP results also in compliance with IAS, though not vice versa.
Accounting Principles: In 1993, the Council of The South African Institute of Chartered Accountants and the Accounting Practices Board, which is the body that approves South African accounting standards, decided that Statements of Generally Accepted Accounting Practice should be based on IASs. To implement that decision, South Africa commenced a harmonisation and improvements project to revise its existing GAAP in line with IAS and to issue a new standard in all areas where an IAS exists but no equivalent South African standard exists. While the South African policy does not permit differences with IAS on fundamental issues, it does allow for alternative treatments, additional disclosures, guidance, and differences from IAS if IAS is in conflict with law or regulation. As a result of the harmonization programme, compliance with South African GAAP results also in compliance with IAS, but not vice versa.

SPAIN IFAC Member: Yes; Stock Exchange: -
Accounting Principles: Accounting standards are established under law, particularly the Code of Commerce. There is a national general accounting plan. The Instituto de Contabilidad y Autidotia de Cuentas (ICAC) is the agency that develops accounting standards under authority of the Ministry of Finance.

SRI LANKA IFAC Member: Yes
Stock Exchange: Companies listed on the Columbo Stock Exchange must submit financial statements under Sri Lanka GAAP.
Accounting Principles: The Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, requires all specified business enterprises - including listed companies - to prepare and present financial statements in accordance with Sri Lanka Accounting Standards.
The Act empowers the Institute of Chartered Accountants of Sri Lanka to adopt suitable accounting standards from time to time and to publish them in the Gazette to have legal effect. The standards are developed by the Accounting Standards Committee of the Institute and are largely derived from IASs. However, the Institute has framed two national standards to deal with issues not covered under IASs, namely finance companies and plantation accounting. Accounting standards relating to banks must have the concurrence of the Banking Supervision Department of the Central Bank.
All IASC exposure drafts are examined by the Accounting Standards Committee, and comments are forwarded to IASC. IASs undergo due review process by the Committee before they are formally adopted by the Council of the Institute.
The Accounting Standards Committee consists of 12 members, including representatives of accountancy bodies, regulatory bodies, and user groups.
Under the Act, an independent body called the Sri Lanka Accounting and Auditing Standards Monitoring Board has been set up to monitor compliance with the accounting standards by all specified business enterprises. The Board has 13 members, including representatives of accountancy bodies, academics, capital market regulators, and industry and commerce.

SUDAN IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -

SWAZILAND IFAC Member: Yes; Stock Exchange: -
Accounting Principles: The Swaziland Institute of Accountants issues Swaziland Accounting Standards that are identical to or conform with International Accounting Standards. There is no legislation that forces companies to use any particular accounting standards.

SWEDEN IFAC Member: Yes
Stock Exchange: Stockholm Stock Exchange allows IAS financial statements.
Accounting Principles: Companies must follow the Annual Report Act of 1995 in preparing their financial statements. Accounting standards are established for public limited companies by the Financial Accounting Standards Council (Redovisiningsradet, or RR). RR includes representatives of government, the accounting profession, and industry.

SWITZERLAND IFAC Member: Yes
Stock Exchange: Swiss Stock Exchange allows IAS financial statements.
Accounting Principles: The Swiss Foundation of Accounting and Reporting publishes accounting standards (ARR/FER) that are generally consistent with, but not as detailed as, IAS. Compliance with ARR/FER is required for listed companies. However, compliance with IAS ensures compliance with ARR/FER, and many large Swiss companies follow IAS.

SYRIA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
TAIWAN IFAC Member: Yes Stock Exchange: Companies on the Taiwan Stock Exchange must follow GAAP approved by the Ministry of Finance. Accounting Principles: The Securities and Exchange Commission of the Ministry of Finance sets the financial reporting requirements for public companies. The Ministry of Economic Affairs issues accounting regulations for both public and non-public companies. An independent accounting standards board (Accounting Research and Development Foundation, or ARDF) publishes accounting standards that are recognised by the Ministry of Finance.
TANZANIA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
THAILAND IFAC Member: Yes Stock Exchange: The Stock Exchange of Thailand allows IAS financial statements. Accounting Principles: Currently, accounting standards are set by the Institute of Certified Accountants and Auditors of Thailand (ICAAT). ICAAT has adopted several IAS as Thai standards. Their goal is to adopt most if not all IAS as Thai standards by 1999. The Thai government is expected to require companies to prepare financial statements using IAS starting 1999. The Finance Ministry will create a new independent self-regulatory board with responsibility both to set standards and to oversee compliance.
TRINIDAD & TOBAGO IFAC Member: Yes; Stock Exchange: - Accounting Principles: IAS are adopted as national standards.
TUNISIA IFAC Member: Yes; Stock Exchange: -; Accounting Principles: -
TURKEY IFAC Member: Yes Stock Exchange: For the Istanbul Stock Exchange, foreign companies may follow IASC Standards or U.S. GAAP or U.K. GAAP (and also must comply with the 4th and 7th EC Directives). Domestic companies must follow Turkish national GAAP. Accounting Principles: Accounting standards are set by an Accounting and auditing Committee within the Ministry of Finance. The committee includes representatives of the government and the private sector.
TURKMENISTAN IFAC Member: No; Stock Exchange: - ; Accounting Principles: -
UGANDA IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
UKRAINE IFAC Member: No Stock Exchange: For the Ukraine Stock Exchange, domestic listed companies must follow Ukrainian GAAP. Foreign listed companies may use either IAS or Ukrainian accounting standards. Accounting Principles: -
UNITED KINGDOM IFAC Member: Yes Stock Exchange: London Stock Exchange allows IAS financial statements. Accounting Principles: Accounting principles are established by the Accounting Standards Board (ASB), a wholly owned subsidiary of FRC Ltd., an independent not-for-profit corporation that promotes the best practice in financial reporting. ASB has been prescribed by the Secretary of State for Trade and Industry for the purposes of section 256(1) of the Companies Act of 1985 with the effect that accounting standards issued by the ASB are recognised as such for the purposes of the accounting requirements of the Acts in Great Britain. The ASB's annual review for 1995 states ASB's policy toward IAS: "If comparability is to be preserved in the financial reporting of nationally and internationally oriented U.K. companies, the Board must ensure both that its own standards build whenever possible on accepted international foundations and that its own experience and principles are clearly explained to its counterparts debating similar issues, whether in other countries at the EU level or in the IASC. . . . In particular, given the growing importance of IASC standards in the EU, [ASB] wishes to be able to contribute to and influence IASC debates from the position of knowing the views in the U.K. Consequently it is likely that subjects added to our work programme will be those which the IASC has to finish to satisfy the demands of IOSCO."
UNITED STATES IFAC Member: Yes Stock Exchange: New York Stock Exchange, NASDAQ, American Stock Exchange, Arizona Stock Exchange, Boston Stock Exchange, Chicago Stock Exchange, Pacific Stock Exchange, Philadelphia Stock Exchange: IAS financial statements allowed for foreign registrants, in which case a note reconciling income statement and balance sheet items to U.S. GAAP is required by regulation of the U.S. Securities and Exchange Commission. Domestic registrants must follow U.S .GAAP. Accounting Principles: Since 1973, the Financial Accounting Standards Board has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports. They are officially recognized as authoritative by the Securities and Exchange Commission (SEC) (Financial Reporting Release No. 1, Section 101) and the American Institute of Certified Public Accountants (Rule 203, Rules of Conduct, as amended May 1973 and May 1979). The SEC has statutory authority to establish financial accounting and reporting standards for publicly held companies under the Securities Exchange Act of 1934. Throughout its history, however, the Commission's policy has been to rely on the private sector for this function to the extent that the private sector demonstrates ability to fulfill the responsibility in the public interest. Excerpt from FASB Plan for International Activities: Over the coming years the FASB intends to engage in the following activities involving direct co-operation with other standard-setting bodies to resolve specific issues and to reduce differences in accounting standards between nations: a. Pursue opportunities to engage in joint multinational standard-setting projects on mutually selected topics to arrive at *(continued on next page)*

separate national standards that are in substantial agreement with one another. The FASB has already begun a number of projects in this area, including the joint project on disaggregated disclosures with Canada and the parallel project with the IASC on earnings per share. In addition, while not formal FASB agenda projects, it is believed that the joint research study with Canada and Mexico on the North American accounting environment and the accounting concepts working group with Australia, Canada, the IASC, and the United Kingdom will lead to the identification of common problem areas that could benefit from joint consideration. Future activities will include: -Adopting a common or substantially similar standard with Canada on disaggregated disclosures; -Adopting a standard on earnings per share the same as or substantially similar to that of the IASC; -Following up on the joint research study with Canada and Mexico to identify areas where differences can be reduced either by conforming existing standards or by creating common standards; -Identifying projects that have promise for reaching broad international agreement. b. Consider adopting foreign national or IASC standards that are judged through due process to be superior to their U.S. counterparts. The FASB will evaluate standards of other countries and of the IASC in areas where current US GAAP is limited, problematic, or non-existent. In the case of IASC standards, the focus will be on the IASC benchmark standard if a pronouncement permits alternative methods. Where it is believed that the adoption of another standard-setting body's high-quality standard would be more efficient and effective than developing a new FASB standard, formal consideration will be given to proposing its adoption. Earnings per share is an example of a proposed IASC standard that was tentatively judged to be superior to the existing U.S. standard.
URUGUAY IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
UZBEKISTAN IFAC Member: Yes Stock Exchange: Tashkent Republican Stock Exchange requires that foreign companies must submit financial statements that comply with U.S. GAAP. Domestic companies must follow Uzbek accounting standards. Accounting Principles: -
VENEZUELA IFAC Member: Yes; Stock Exchange: - Accounting Principles: GAAP in Venezuela is determined by the Venezuelan Federation of Colleges of Public Accountants and, in the case of companies traded on either of Venezuela's stock exchanges, by the National Securities Commission (CNV). If neither of those organizations has issued a pronouncement on a subject, International Accounting Standards are the first alternative for all accounting and disclosure matters.
VIETNAM IFAC Member: Yes; Stock Exchange: - ; Accounting Principles: -
ZAMBIA IFAC Member: Yes; Stock Exchange: - Accounting Principles: The Zambia Institute of Certified Accountants has implemented a formal policy for the adoption of International Accounting Standards, although there is no legal requirement for companies to apply them.
ZIMBABWE IFAC Member: Yes Stock Exchange: The Zimbabwe Stock Exchange requires both Zimbabwe and foreign listed companies to comply with both IAS and Zimbabwe accounting standards. Compliance with Zimbabwe standards means compliance with IAS since Zimbabwe Accounting Practices Board has adopted all International Accounting Standards (with guidance added for mining companies and related party transactions). Section 8.51 (a) of the ZSE listing requirements states "the annual financial statements must have been prepared in accordance with the issuers national law and, in all significant respects with GAAP or 1AS." For Zimbabwe companies whose principal listing is in Zimbabwe (64 out of 67 listed companies) they must use IAS standards and the local GAAP requirements. This is in terms of... requirements and the local professional accounting standards. [Respondent not] aware of any difference where applicable between Companies Act as amended and IAS requirements. The local GAAP would cover the agricultural and mining listed companies in areas not covered by IAS. Accounting Principles: The Zimbabwe Accounting Practices Board has stated the following: "All discussion papers and exposure drafts issued by the International Accounting Standards Committee are examined by the Institute and the Zimbabwe Accounting Practices Board and comments arising from such examination are communicated to the IASC by the Institute. International accounting standards published by the IASC are re-examined by the Institute and the Board. Standards ratified by the Board bear the stamp of general acceptance by the organisations represented on the Board and assume the identity of 'Zimbabwe Accounting Standards'. The disclosure requirements of such standards are incorporated into a subsequent amendment to the Companies (Financial Statements) Regulations." This effectively means that Zimbabwe standards are the International standards. The ZAPB has issued guidance in only two areas so far: IAS 12 for mining companies and IAS 24 as related parties can be complex in African society. [S]tandard audit opinion includes the wording: "In our opinion the financial statements are properly drawn up in compliance with the Companies Act (Chapter 24:03) and in conformity with International Standards as adopted for use in Zimbabwe..."

APPENDIX C: EVIDENCE ON GLOBAL CROSS-BORDER CAPITAL FLOWS

TABLE 1: NUMBER OF DOMESTIC AND FOREIGN COMPANIES WITH SHARES LISTED ON MAJOR STOCK EXCHANGES AND PARALLEL MARKETS, 1997, EXCLUDING INVESTMENT FUNDS

NORTH AMERICA

Exchange	Total Number of Companies	Domestic Companies	Foreign Companies
Amex	710	647	63
Chicago	268	268	0
Mexico	198	194	4
Montreal	557	545	12
Nasdaq	5,487	5,033	454
NYSE	2,626	2,271	355
Toronto	1,420	1,362	58
Vancouver	1,429	NA	NA

SOUTH AMERICA

Exchange	Total Number of Companies	Domestic Companies	Foreign Companies
Buenos Aires	136	136	0
Lima	248	245	3
Rio de Janeiro	573	572	1
Santiago	294	294	0
Sao Paulo	537	536	1

EUROPE, AFRICA, MIDDLE EAST

Exchange	Total Number of Companies	Domestic Companies	Foreign Companies
Amsterdam	348	199	149
Athens	210	210	0
Barcelona	337	333	4
Bilbao	255	254	1
Brussels	265	138	127
Copenhagen	249	237	12
Germany	2,696	700	1,996
Helsinki	126	124	2
Irish	102	83	19
Istanbul	259	258	1
Italy	239	235	4
Johannesburg	642	615	27
Lisbon	148	148	0
Ljubljana	78	78	0
London	2,513	2,046	467
Luxembourg	284	56	228
Madrid	388	384	4
Oslo	217	196	21
Paris	924	740	184
Stockholm	261	245	16
Switzerland	428	216	212
Tehran	263	263	0
Tel-Aviv	659	657	2
Vienna	138	101	37
Warsaw	143	143	0

ASIA, PACIFIC			
Exchange	**Total Number of Companies**	**Domestic Companies**	**Foreign Companies**
Australian	1,219	1,159	60
Hong Kong	658	638	20
Jakarta	281	281	0
Korea	776	776	0
Kuala Lumpur	703	700	3
New Zealand	190	135	55
Osaka	1,275	1,274	1
Philippine	221	221	0
Singapore	334	294	40
Taiwan	404	404	0
Thailand	431	431	0
Tokyo	1,865	1,805	60

Source: Table 1.1, Web Site of the Federation Internationale des Bourses de Valeurs (FIBV, the International Federation of Stock Exchanges) - www.fibv.com. NA - Not Available.

TABLE 2: NUMBER OF DOMESTIC AND FOREIGN BOND ISSUERS WITH BONDS LISTED ON SELECTED MAJOR EXCHANGES, 1997

Exchange	Total Issuers	Number of Domestic Private Sector Bond Issuers	Number of Domestic Public Sector Bond Issuers	Number of Foreign Bond Issuers
NYSE	533	469	6	58
Amsterdam	204	123	9	72
Germany	653	254	53	346
London	1,686	926	54	706
Madrid	125	59	39	27
Paris	468	276	80	112
Tokyo	568	537	4	27

Source: Table II.1.1, Web Site of the Federation Internationale des Bourses de Valeurs (FIBV, the International Federation of Stock Exchanges) - www.fibv.com.
The table above lists only some of the exchanges included in Table II.1.1 on FIBV's Web Site.

TABLE 3 : CROSS-BORDER TRANSACTIONS IN BONDS AND EQUITIES AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT (GDP) (GROSS PURCHASES AND SALES OF SECURITIES BETWEEN RESIDENTS AND NON-RESIDENTS)

	1975	1980	1985	1990	1995	1996	1997
United States	4	9	35	89	135	160	213
Japan	2	8	62	119	65	79	96
Germany	5	7	33	57	172	199	253
France	-	5	21	54	187	258	313
Italy	1	1	4	27	253	470	672
Canada	3	9	27	65	189	251	358

Source: Table VI.1, Bank for International Settlements, 68th Annual Report (1998).

TABLE 4: AMOUNT OF CAPITAL RAISED IN U.S. PUBLIC SECURITIES MARKETS BY NON-U.S. REGISTRANTS (US$ BILLIONS)

1990	1991	1992	1993	1994	1995	1996	1997
$7.7	$24.9	$33.1	$49.4	$48.9	$48.3	$84.8	$128.3

Source: SEC Division of Corporation Finance, Statistical Report (1997)

TABLE 5: NUMBER OF NEW NON-U.S. ISSUERS REGISTERING WITH THE SEC

1990	1991	1992	1993	1994	1995	1996	1997
45	40	94	109	146	103	162	167

Source: SEC Division of Corporation Finance, Statistical Report (1997)

TABLE 6: STOCK TRANSACTIONS ON U.S. EQUITY MARKETS INVOLVING FOREIGN INVESTORS 1987-1996 (US$ BILLIONS)

	Transactions in U.S. Stocks		Transactions in Foreign Stocks	
Year	Foreigners' Purchases from Americans	Foreigners' Sales to Americans	Foreigners' Purchases from Americans	Foreigners' Sales to Americans
1996	$624	$612	$457	$514
1995	$463	$452	$346	$396
1994	$351	$349	$386	$434
1993	$320	$298	$245	$308
1992	$221	$227	$150	$182
1991	$211	$200	$121	$153
1990	$173	$188	$123	$132
1989	$214	$204	$110	$123
1988	$181	$183	$75	$77
1987	$249	$233	$95	$94

Source: New York Stock Exchange Fact Book 1997

TABLE 7: FOREIGN COMPANIES LISTED ON THE LONDON STOCK EXCHANGE, DECEMBER 31, 1997

	U.K. Companies	Foreign Companies	Total
Number of listed companies	2,157	526	2,683
Percent of total	80.4%	19.6%	100%
Market value of their shares	1.012 trillion	2.258 trillion	3.270 trillion
Percent of total	30.9%	69.1%	100%

Source: London Stock Exchange Web Site - www.londonstockex.co.uk

TABLE 8: EQUITY, DEBT, AND OPTIONS TRADING ON 8 GERMAN STOCK EXCHANGES DECEMBER 31, 1997

8 German Securities Exchanges	Number of Listings
EQUITY ISSUES	3,003
Foreign issuers from 63 countries	2,186
German issuers	817
FIXED RATE DEBT ISSUES	24,129
Foreign issuers	1,075
German issuers	23,054
OPTIONS	5,787
Foreign issuers	461
German issuers	5,326

Source: Gruppe Deutsche Börse, May 21, 1998

TABLE 9: TOTAL FOREIGN DIRECT INVESTMENT (FDI) INFLOWS 1990-1996 (US$MILLIONS)

Recipient	Amount of FDI Inflows
United States	$336,343
China	$156,342
United Kingdom	$139,917
France	$126,390
Belgium-Luxembourg	$71,483
Spain	$62,528
Netherlands	$62,065
Mexico	$46,372
Canada	$45,601
Singapore	$43,362
Australia	$42,866
Sweden	$37,881
Malaysia	$30,293
Italy	$26,615
Argentina	$23,793
Brazil	$23,276
Germany	$21,663
Indonesia	$20,773
Denmark	$15,810
New Zealand	$15,761
Switzerland	$15,674
Thailand	$14,148
Hungary	$12,860
Poland	$12,805
Hong Kong, China	$11,639

Source: "Recent Trends in Foreign Direct Investment," *Financial Market Trends,* June 1998, available on the OECD web site - www.oecd.org.

APPENDIX D: THE IASC DECISION PROCESS

(from the IASC web site as of August 1999)

DETAILED STEPS LEADING TO AN INTERNATIONAL ACCOUNTING STANDARD

Board Representatives, Member Bodies, members of the Consultative Group, other organizations and individuals, and the IASC staff are encouraged to submit suggestions for new topics which might be dealt with in International Accounting Standards (IAS).

IASC's due process ensures that IAS are high quality standards that require appropriate accounting practices in particular economic circumstances. The due process also ensures, through consultation with the Consultative Group, IASC's Member Bodies, standard setting bodies, and other interested groups and individuals on a worldwide basis, that IAS are acceptable and valuable to the users and preparers of financial statements.

The procedure for developing an International Accounting Standard is as follows:

1. The Board sets up a Steering Committee. Each Steering Committee is chaired by a Board Representative and usually includes representatives of the accountancy bodies in at least three other countries. Steering Committees may also include representatives of other organisations that are represented on the Board or the Consultative Group or that are expert in the particular topic.
2. The Steering Committee identifies and reviews all the accounting issues associated with the topic. The Steering Committee considers the application of IASC's Framework for the Preparation and Presentation of Financial Statements to those accounting issues. The Steering Committee also studies national and regional accounting requirements and practice, including the different accounting treatments that may be appropriate in different circumstances. Having identified the issues involved, the Steering Committee submits to the Board a Point Outline of the detailed scope of the project.
3. After receiving comments from the Board on the Point Outline, the Steering Committee prepares and publishes a Draft Statement of Principles (DSOP). The purpose of this DSOP is to propose for comment the underlying accounting principles that will form the basis for preparing the Exposure Draft. The DSOP also describes the alternative solutions considered and the reasons for recommending their acceptance or rejection. Comments are invited from all interested parties. The exposure period is usually around three months.
   For revisions to an existing International Accounting Standard, the Board may instruct the Steering Committee to prepare an Exposure Draft without first publishing a DSOP.
   Sometimes, early in the process, the Board may decide that the needs of the subject under consideration warrant additional consultation or the issuance of a Discussion Paper for comment before the DSOP is published. The comments received through consultation or in response to the Discussion Paper help shape the DSOP.
4. The Steering Committee reviews the comments on the Draft Statement of Principles and agrees on a final Statement of Principles. The Statement of Principles is submitted to the Board for approval and then used as the basis for preparing an Exposure Draft of a proposed International Accounting Standard. The final Statement of Principles is available to the public on request but is not formally published.
5. The Steering Committee prepares a draft Exposure Draft for approval by the Board. After revision, and with the approval of at least two-thirds of the Board, the Exposure Draft is published. Comments are invited from all interested parties during the exposure period, a minimum of one month and usually at least three months.
6. The Steering Committee reviews the comments and prepares a draft International Accounting Standard for review by the Board. After revision, and with the approval of at least three-quarters of the Board, the Standard is published.
   Occasionally, it may also be necessary to issue more than one Exposure Draft before developing an International Accounting Standard.

IASC STEERING COMMITTEES

The IASC Board appoints a Steering Committee for each agenda project.

Responsibilities

- review the issues, national and regional accounting requirements and practices, existing and proposed IASC pronouncements, and other relevant material;
- advise the IASC staff on the issues to be addressed and areas for research;
- review and comment on staff drafts;
- conduct meetings to hear views of interested parties;
- approve and issue the Draft Statement of Principles for public comment;
- evaluate comments on the Draft Statement of Principles and the Exposure Draft;
- approve the following documents for submission to the Board:
  - Point Outline
  - Statement of Principles
  - Exposure Draft
  - International Accounting Standard.

Membership

- Generally 6 to 8 members
- 4 from Board Member countries;
- 1 from a Consultative Group organisation; and
- 1 or more members from other organisations.
- Chairman is normally a Board Representative.

You will find the names of the members of each current IASC Steering Committee included in the descriptions of our current projects.

THE IASC BOARD

The business of IASC is conducted by the IASC Board, which comprises representatives of accountancy bodies in 13 countries (or combinations of countries) appointed by the Council of IFAC, and up to four other organizations with an interest in financial reporting appointed by the Board itself. Each Board Member organization may nominate up to two representatives and a technical adviser to attend Board meetings. IASC encourages each Board Member to include in its delegation at least one person working in industry and one person directly involved in the work of the national standard-setting body.

- Up to 17 Board Members are permitted. Currently there are 16.
- Board Members are organizations, not individuals, including:
  - 13 accountancy bodies; and
  - up to 4 other organizations (currently 3).
- 1 or 2 individuals represent each Board Members.
- Each delegation also may have 1 Technical Adviser.
- In several cases, accountancy bodies from two countries jointly hold a single Board Membership.
- 1 vote per Board "seat." No half votes.
- 21/2-year terms, reappointment is permitted.
- Part-time, unpaid.
- Meet for one week 4 times a year.
- Board elects a nonvoting Chairman.
- The Board appoints an Executive Committee to address administrative matters.

For the two-and-a-half year term ending June 30, 2000, the Board Members are:

Chairman and Vice-Chairmen
Australia
Canada
France
Germany
India and Sri Lanka
Japan
Malaysia
Mexico
Netherlands
Nordic Federation of Public Accountants
South Africa and Zimbabwe
United Kingdom
United States of America
International Council of Investment Associations (ICIA)
Federation of Swiss Industrial Holding Companies
International Association of Financial Executives Institutes (IAFEI).
Observers (with right of the floor):
European Commission
United States Financial Accounting Standards Board (FASB)
International Organization of Securities Commissions (IOSCO).
People's Republic of China

IASC CONSULTATIVE GROUP

In 1981, the IASC Board established a Consultative Group that includes representatives of international organizations of preparers and users of financial statements, stock exchanges, securities regulators, development agencies, standard setting bodies, and intergovernmental organizations.

The Consultative Group meets periodically to discuss with the Board the technical issues in IASC projects, IASC's work programme and IASC's strategy. This group plays an important part in IASC's due process for the setting of International Accounting Standards and in gaining acceptance for the resulting Standards.

Current members of the Consultative Group:
- Fédération Internationale des Bourses de Valeurs (FIBV)
- International Association for Accounting Education and Research (IAAER)
- International Banking Associations
- International Bar Association (IBA)
- International Chamber of Commerce (ICC)
- International Confederation of Free Trade Unions (ICFTU), and World Confederation of Labour
- International Valuation Standards Committee (IVSC)
- International Finance Corporation (IFC)
- The World Bank
- Financial Accounting Standards Board*
- European Commission*
- Organization for Economic Co-operation and Development (OECD)*
- United Nations Division on Transnational Corporations and Investment*

* Observers

IASC'S ADVISORY COUNCIL

In 1995, IASC established a high-level international Advisory Council of outstanding individuals in senior positions from the accountancy profession, business, and the other users of financial statements. The role of the Advisory Council is to promote generally the acceptability of International Accounting Standards and enhance the credibility of IASC's work by, among other things:
- reviewing and commenting on the Board's strategy and plans so as to satisfy itself that the needs of IASC's constituencies are being met;
- preparing an annual report on the effectiveness of the Board in achieving its objectives and in carrying out its due process;
- promoting participation in, and acceptance of, the work of IASC by the accountancy profession, the business community, the users of financial statements and other interested parties;
- seeking and obtaining funding for IASC's work in a way that it does not impair IASC's independence; and
- reviewing IASC's budget and financial statements.

The Advisory Council ensures that the independence and objectivity of the Board in making technical decisions on proposed International Accounting Standards are not impaired. The Advisory Council does not participate in, or seek to influence, those decisions.

Details of the Advisory Council:
- members are appointed by the IASC Board;
- currently 10 members;
- members serve two year terms, renewable;
- Advisory Council elects its own Chairman;
- Advisory Council meets at least annually.

STANDING INTERPRETATIONS COMMITTEE

In 1997, the IASC Board approved the formation of a Standing Interpretations Committee (SIC) to consider, on a timely basis, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance. Its review will be within the context of existing International Accounting Standards and the IASC Framework. In developing interpretations, the SIC will work closely with similar national committees.

The SIC met for the first time in April 1997. Thereafter, it expects to meet four times each year.

The SIC will deal with issues of reasonably widespread importance, and not issues of concern to only a small set of enterprises. The interpretations will cover both:
- mature issues (unsatisfactory practice within the scope of existing International Accounting Standards); and
- emerging issues (new topics relating to an existing International Accounting Standard but not considered when the Standard was developed).

SIC Structure and Procedures

The SIC has 12 voting members from various countries, including individuals from the accountancy profession, preparer groups and user groups. IOSCO and the European Commission are non-voting observers. To ensure adequate liaison with the Board, two Board Representatives will attend SIC meetings.

If no more than three of its voting members have voted against an interpretation, the SIC will ask the Board to approve the interpretation for issue; as for International Accounting Standards, this will require three-quarters of the Board to vote in favour.

The public is invited to comment on Draft Interpretations. Draft Interpretations are numbered sequentially: D1, D2, and so on. Interpretations will be formally published after approval by the Board. Final Interpretations are numbered sequentially: SIC-1, SIC-2, and so on. IASC's Operating Procedures do not allow IASC staff to give private advice on the meaning of International Accounting Standards.

IASC'S CONSTITUTION

Definitions

The following terms are used in this Constitution with the meanings specified:

- Members of IASC shall be the Members defined in clause 3.
- Board Members shall be the countries and organizations defined in clause 4. Board Members need not be Members of IASC.
- Board Representatives shall be the individuals appointed to represent the Board Members in accordance with clause 6.
- Country shall include two or more countries that may be appointed jointly as a Board Member.

Name and Objectives

1. The name of the organization shall be the International Accounting Standards Committee (IASC).
2. The objectives of IASC are:
   (a) to formulate and publish in the public interest accounting standards to be observed in the presentation of financial statements and to promote their worldwide acceptance and observance; and
   (b) to work generally for the improvement and harmonization of regulations, accounting standards and procedures relating to the presentation of financial statements.

Membership

3. The Members of the International Accounting Standards Committee shall consist of all professional accountancy bodies that are members of the International Federation of Accountants (IFAC).

The Board

4. The business of IASC shall be conducted by a Board consisting of:
   (a) up to 13 countries as nominated and appointed by the Council of IFAC that shall be represented by Members of IASC, and
   (b) up to four organizations having an interest in financial reporting co-opted under clause 12(a).
5. The term of appointment of a Board Member selected under clause 4
   (a) shall be no more than five years. A retiring Board Member shall be eligible for re-appointment. and
   (b) The term of appointment of a Board Member co-opted under clause 4(b) shall be determined by the Board at the time of appointment.
6. The Board Members may nominate not more than two Board Representatives from their country or organization to serve on the Board. The Board Representatives from each country or organization may be accompanied at meetings of the Board by a Technical Adviser.
7. The Board Representatives and the persons nominated to carry out particular assignments or to join steering committees/working parties/groups shall not regard themselves as representing sectional interests but shall be guided by the need to act in the public interest.
8. The President of IFAC, or his designate, accompanied by not more than one technical adviser, shall be entitled to attend meetings of the Board of IASC, be entitled to the privilege of the floor, but shall not be entitled to vote.
9. The Board shall prepare a report on its work each year and send it to the Members of IASC, the Council of IFAC, and other interested individuals and organizations.

Chairman

10. The Board shall be presided over by a Chairman elected for a term of two-and-a-half years by the Board Representatives from among their number. The Chairman shall not be eligible for re-election. The Board Member providing the Chairman shall be entitled to a further Board Representative.

Voting at Board Meetings

11. Each Board Member shall have one vote which may be taken by a show of hands or by written ballot. Except where otherwise provided either in this Constitution or in the operating procedures, decisions shall be taken on a simple majority of the Board.

Responsibilities and Powers

12. The Board shall have the power to:
    (a) invite up to four organizations having an interest in financial reporting to be co-opted on to the Board; and
    (b) remove from membership of the Board any Board Member whose financial contribution determined under clause 14(d) is more than one year in arrears or which fails to be represented at two successive Board meetings;
    (c) publish documents relating to international accounting issues for discussion and comment provided a majority of the Board votes in favour of publication;
    (d) issue documents in the form of exposure drafts for comment (including amendments to existing Standards) in the name of the International Accounting Standards Committee provided at least two-thirds of the Board votes in favour of publication;
    (e) issue International Accounting Standards provided that at least three-quarters of the Board votes in favour of publication;
    (f) establish operating procedures so long as they are not inconsistent with the provisions of this Constitution;
    (g) enter into discussions, negotiations or associations with outside bodies and generally promote the worldwide improvement and harmonization of accounting standards;
    (h) seek and obtain funds from Members of IASC and non-members which are interested in supporting the objectives of IASC provided that such funding is organized in such a way that it does not impair the independence, or the appearance of independence, of IASC.

Issue of Discussion Documents, Exposure Drafts and International Accounting Standards

13. (a) Discussion documents and exposure drafts shall be distributed by the Board to all Members of IASC. A suitable period shall be allowed for respondents to submit comments.
    (b) Dissenting opinions will not be included in any exposure drafts or International Accounting Standards promulgated by the Board.
    (c) Exposure drafts and International Accounting Standards may be distributed to such governments, standard-setting bodies, stock exchanges, regulatory and other agencies and individuals as the Board may determine.
    (d) The approved text of any exposure draft or International Accounting Standard shall be that published by IASC in the English language. The Board may give authority to the Members of IASC and others to prepare translations of the approved text and to publish the approved text of exposure drafts and International Accounting Standards.

Financial Arrangements

14. (a) An annual budget for the ensuing calendar year shall be prepared by the Board each year and sent to the Board Members and to the Council of IFAC.
    (b) The Board shall determine the aggregate amount of the net budgeted expenditure which should be borne by the Board Members and by IFAC.
    (c) IFAC shall contribute five per cent of the aggregate amount determined under (b) in January and five per cent in July of each year. The remainder of the aggregate amount determined under (b) shall be borne by the Board Members, except that the Council of IFAC may decide to reimburse wholly or in part the share charged to one or more Board Members.
    (d) The Board Members shall contribute on 1st January and 1st July each year a sum in such proportions as shall be decided by a three-quarters vote of the Board. Unless otherwise agreed, Board Members shall contribute equally to the annual budget. Board Members which are represented on the Board for part only of a calendar year shall contribute a pro rata proportion calculated by reference to the period of their representation on the Board in that year.
    (e) The Committee shall reimburse the travelling, hotel and incidental expenses of attendance at Board meetings by one Board Representative from each Board Member. In addition, the Committee shall reimburse the Chairman for expenses incurred in attending Board meetings and otherwise on behalf of IASC.
    (f) The Board shall determine in its operating procedures what other expenses shall be a charge against the income of the Committee.
    (g) The Board shall annually prepare financial statements and submit them for audit and send copies thereof to the Members of IASC and to the Council of IFAC.

Board Meetings

15. Meetings of the Board shall be held at such times and in such places as the Board Members may mutually agree.

Meetings of Members of IASC

16. A meeting of the Members of IASC shall be held in conjunction with each General Assembly of IFAC.
17. Each Member of IASC shall have one vote. The method of voting shall be determined by the meeting and shall be either by a show of hands or by ballot. A Member of IASC may give a proxy to another Member of IASC to vote on its behalf subject to the Chairman receiving notice from the Member of IASC giving the proxy prior to the meeting.

Administrative Office

18. The location of the administrative office of the Committee shall be determined by the Board.

Amendments to Constitution

19. Amendments to this Constitution shall be discussed with the Council of IFAC and shall require a three-quarters majority of the Board and approval by the Members of IASC as expressed by a simple majority of those voting.
    This revised Constitution was approved by the Members of IASC at a meeting in Washington D.C., United States of America on 11th October 1992.

APPENDIX E: THE FASB DECISION PROCESS

(from their web site as of August 1999)

AN INDEPENDENT STRUCTURE

Financial Accounting Standards Board

The FASB is part of a structure that is independent of all other business and professional organizations. Before the present structure was created, financial accounting and reporting standards were established first by the Committee on Accounting Procedure of the American Institute of CPAs (1936-59) and then by the Accounting Principles Board, also an arm of the AICPA (1959-73). Pronouncements of those predecessor bodies remain in force unless amended or superseded by the FASB.

Financial Accounting Foundation

The Financial Accounting Foundation, which is incorporated to operate exclusively for charitable, educational, scientific, and literary purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code, is responsible for selecting the members of the FASB and its Advisory Council, funding their activities, and for exercising general oversight (except with regard to the FASB's resolution of technical issues).

In 1984, the Foundation established a Governmental Accounting Standards Board to set standards of financial accounting and reporting for state and local governmental units. As with the FASB, the Foundation is responsible for selecting its members and exercising general oversight.

The Foundation also receives contributions and approves the FASB budget. More than half the funds contributed are from the public accounting profession, with the remainder coming from industry and the financial community.

The Foundation is separate from all other organizations. However, its Board of Trustees is made up of nominees from sponsoring organizations whose members have special knowledge of, and interest in, financial reporting. They are:

- American Accounting Association
- American Institute of Certified Public Accountants
- Association for Investment Management and Research
- Financial Executives Institute
- Government Finance Officers Association
- Institute of Management Accountants
- National Association of State Auditors, Comptrollers and Treasurers
- Securities Industry Association

There are also at large Trustees not nominated by those organizations.

Financial Accounting Standards Advisory Council

The Financial Accounting Standards Advisory Council (the Council) is responsible for advising the Financial Accounting Standards Board (the FASB) on issues related to projects on the FASB's agenda, possible new agenda items, project priorities, procedural matters that may require the attention of the FASB, and other matters as requested by the chairman of the FASB. At present, the Council has more than 30 members who are broadly representative of preparers, auditors, and users of financial information. Robert C. Butler, former chief financial officer of Celgene Corporation, and former senior vice president and chief financial officer of International Paper Company, is chairman of the Council.

How Topics Are Added to the FASB's Technical Agenda

The FASB receives many requests for action on various financial accounting and reporting topics from all segments of a diverse constituency, including the SEC. The auditing profession is sensitive to emerging trends in practice, and consequently it is a frequent source of requests. Overall, requests for action include both new topics and suggested review or reconsideration of existing pronouncements.

The FASB is alert to trends in financial reporting through observation of published reports, liaison with interested organizations, and from recommendations from and discussions with the Emerging Issues Task Force. In addition, the staff receives many technical inquiries by letter and by telephone, which may provide evidence that a particular topic, or aspect of an existing pronouncement, has become a problem. The FASB also is alert to changes in the financial reporting environment that may be brought about by new legislation or regulatory decisions.

The Board turns to many other organizations and groups for advice and information on various matters, including its agenda. Among the groups with which liaison is maintained are the Financial Accounting Standards Advisory Council, the Accounting Standards Executive Committee and Auditing Standards Board of the AICPA, and the appropriate committees of such organizations as the Association for Investment Management and Research, Financial Executives Institute, Institute of Management Accountants, and Robert Morris Associates.

After receiving input from the constituency, the Board must make its own decisions regarding its technical agenda. To aid in the decision-making process, the Board has developed a list of factors to which it refers in evaluating proposed topics. Those factors include consideration of:

1. Pervasiveness of the problem: the extent to which an issue is troublesome to users, preparers, auditors, or others; the extent to which there is diversity of practice; and the likely duration of the problem (i.e., is it transitory, or will it persist)
2. Alternative solutions: the extent to which one or more alternative solutions that will improve financial reporting in terms of relevance, reliability, and comparability are likely to be developed.
3. Technical feasibility: the extent to which a technically sound solution can be developed, or whether the project under consideration should await completion of other projects
4. Practical consequences: the extent to which an improved accounting solution is likely to be acceptable generally, and the extent to which addressing a particular subject (or not addressing it) might cause others to act, e.g., the SEC or Congress.

It is not possible to evaluate the above factors in precisely the same way and to the same extent in every instance, but identification of factors to be considered helps to bring about consistent decisions regarding the Board's technical agenda.

An Open Decision-Making Process

Actions of the Financial Accounting Standards Board have an impact on many organizations within the Board's large and diverse constituency. It is essential that the Board's decision-making process be evenhanded. Accordingly, its Rules of Procedure require the FASB to follow an extensive "due process" that is open to public observation and participation. This process was modeled on the Federal Administrative Procedure Act and in several respects is more demanding.

In addition to broad issues of financial accounting and reporting, the Board considers certain issues related to implementation of existing standards and other problems arising in practice. Though rigorous, the "due process" required to be followed on such projects is not as extensive as that for projects dealing with major issues.

MAJOR PROJECTS

For each major project on its technical agenda, the Board appoints an advisory task force of outside experts, studies existing literature on the subject and conducts or commissions such additional research as may be necessary, publishes a discussion document setting forth the issues and possible solutions as the basis for public comment, conducts a public hearing, and gives broad distribution to an Exposure Draft of the proposed Statement for public comment.

Significant steps in the process are announced publicly. The Board's meetings are open to public observation and a public record is maintained.

The Task Force

Soon after a major project is placed on the Board's technical agenda, a task force of approximately 15 persons is appointed, including preparers, auditors, and users of financial information who are knowledgeable about the subject matter. Experts from other disciplines also may be appointed. Care is taken to ensure that various points of view on the issues involved are represented on the task force.

The task force meets with and advises the Board and staff on the definition and scope of the project, the nature and extent of any additional research that may be needed, and the preparation of a discussion document and related material as a basis for public comment. Task force meetings are open to public observers.

Task forces play an important role in the standard-setting process by providing expertise, a diversity of viewpoints, and a mechanism for communication with those who may be affected by proposed standards.

The Discussion Document

As a basis for both written comment and oral presentations at a public hearing, a Discussion Memorandum or other discussion document is prepared by the FASB staff with the advice and assistance of the task force. The discussion document generally sets forth the definition of the problem, the scope of the project, and the financial accounting and reporting issues; discusses research findings and relevant literature; and presents alternative solutions to the issues under consideration and the arguments and implications relative to each.

A discussion document specifies a deadline for written comments and generally contains a Notice of Public Hearing. It is distributed broadly to interested parties. In some circumstances, an Exposure Draft may provide the basis for a public hearing, either initially or at a later stage in the project.

The Public Hearing

A public hearing is held to provide an opportunity for the Board and staff to ask questions about information and points of view offered by respondents. The Board announces its intent to hold a public hearing generally 60 days or more before the earliest hearing date.

Any individual or organization may request to be heard at a public hearing and the FASB attempts to accommodate all such requests. Hearings are conducted by the Board plus the staff project manager and other staff personnel assigned to the project. Public observers are welcome.

Most oral presentation time is reserved for questions from Board and staff members. Questions are based on written material submitted prior to the hearing as well as on oral comments. The hearing transcript and written comments, including those from persons who do not choose to make oral presentations, become part of the public record.

Analysis of Oral and Written Comments

The staff makes an exhaustive analysis of all comments, both oral and written. This is a search for information and persuasive arguments regarding the issues; it is not intended to be simply a "nose count" of how many support or oppose a given point of view. In addition to studying this analysis, Board members read the comment letters to help them in reaching conclusions. After available input is absorbed, formal Board deliberations begin.

Meetings of the Board

The Board meets as many times as necessary to resolve the issues. All meetings are open to public observers, although observers do not participate in the discussions. The agenda for each meeting is announced in advance.

The staff is required to present written material, including analysis and recommendations, to the Board members in advance as the basis for discussion in a Board meeting. The meeting format calls for oral presentation of a summary of the written materials by the staff, followed by Board discussion of each issue presented, and questioning of the staff on the points raised. When the Board has reached conclusions on the issues, the staff is directed to prepare a proposed Exposure Draft for consideration by the Board. After further discussion and revision, a vote is taken. Five votes of the seven-member Board are required to approve an Exposure Draft for issuance.

The Exposure Draft

The Exposure Draft sets forth the proposed standards of financial accounting and reporting, the proposed effective date and method of transition, background information, and an explanation of the basis for the Board's conclusions.

At the end of the exposure period, generally 60 days or more, all comment letters and position papers again are analyzed by the staff, and again Board members read or refer to them. When analysis and review are completed, the Board is ready to resume deliberation leading to issuance of a final Statement.

Further Deliberation of the Board

As in earlier stages of the process, all Board meetings are open to public observation. The Board considers comments received on the Exposure Draft and often incorporates suggested changes in the final Statement. If substantial modifications appear to be necessary, the Board may decide to issue a revised Exposure Draft for additional public comment. In such cases, the Board also may determine that a second public hearing is necessary. When the Board is satisfied that all reasonable alternatives have been considered adequately, a vote is taken on the final Statement. Five votes are required for adoption of a pronouncement.

Statements of Financial Accounting Standards

Like the Exposure Draft, the Statement sets forth the actual standards, the effective date and method of transition, background information, a brief summary of research done on the project, and the basis for the Board's conclusions, including the reasons for rejecting significant alternative solutions. It also identifies members of the Board voting for and against its issuance and includes comments of dissenting members in support of their dissents.

Statements of Financial Accounting Concepts

Statements of Concepts do not establish new standards or require any change in the application of existing accounting principles, but are intended to provide guidance in solving problems. Because of their long-range importance, Statements of Concepts are developed under the same extensive due process the FASB must follow in developing Statements of Financial Accounting Standards on major topics.

IMPLEMENTATION AND PRACTICE PROBLEMS

Depending on their nature, implementation and practice problems may be dealt with by the Board in Statements or Interpretations, or by the staff in Technical Bulletins.

When a Statement is to be developed to amend an existing standard or establish a new standard on a relatively narrow subject, the Board may determine that it is appropriate to proceed without appointing a task force, issuing a discussion document, or holding a public hearing. However, the Rules of Procedure require that an Exposure Draft of the proposed Statement be issued for public comment, generally for at least 60 days but a minimum of 30 days.

Written comments are analyzed and considered to the same extent as on a major project. Board deliberations are open to public observation and a public record is maintained.

Interpretations

The Board issues Interpretations to clarify, explain, or elaborate on existing FASB Statements of Financial Accounting Standards or the effective pronouncements of its predecessors, the Accounting Principles Board and the Committee on Accounting Procedure of the American Institute of Certified Public Accountants.

Under the Rules of Procedure, proposed Interpretations must be exposed for comment for a period of not less than 30 days.

Written comments on proposed Interpretations constitute a part of the FASB's public record.

Technical Bulletins

Technical Bulletins issued by the FASB staff may address issues not directly covered by existing standards and may provide guidance that differs, for particular situations, from the general application required by existing pronouncements. Generally, guidance can be provided in a Technical Bulletin if it is not expected to cause a major change in practice for a significant number of companies; the cost of implementation is not expected to be significant; and the guidance does not conflict with a broad fundamental accounting principle or create a novel accounting practice. Proposed Technical Bulletins must be discussed by the Board in a public meeting prior to distribution for public comment. The comments received on proposed Bulletins must be discussed by the Board in a public meeting prior to the issuance of a final Technical Bulletin. A Bulletin may not be issued if more than two of the Board members object to the guidance in it or object to communicating that guidance by means of a Technical Bulletin.

THE PUBLIC RECORD

Transcripts of public hearings, letters of comment and position papers, research reports, and other relevant materials on projects leading to issuance of pronouncements become part of the Board's public record. The public records on all projects are available for inspection in the public reference room at FASB headquarters in Norwalk, Connecticut. Copies of public records also may be purchased at prices that vary according to the volume of material that has to be copied.

AVAILABILITY OF PUBLICATIONS

To encourage public comment, Discussion Memorandums and Exposure Drafts are distributed widely through the FASB's established mailing plans. Single copies are available without charge during the comment period to all who request them. Statements of Standards, Statements of Concepts, and Interpretations also are distributed broadly when published through FASB subscription plans and may be purchased separately.

The FASB strives to keep the public informed of developments on its projects through a newsletter (*Status Report*) and a weekly notice of upcoming Board meetings and their agendas with brief summaries of actions taken at previous meetings (*Action Alert*).

The Board Members

The seven members of the Financial Accounting Standards Board serve full time and are required to sever all connections with the firms or institutions they served prior to joining the Board. They have diverse backgrounds, but they must possess "knowledge of accounting, finance, and business, and a concern for the public interest in matters of financial accounting and reporting."

Board members are appointed for five-year terms and are eligible for reappointment to one additional five-year term. The Board Members as of July 1, 1999:

Edmund L. Jenkins, Chairman 2002
James J. Leisenring, Vice Chairman 2000
Anthony T. Cope 2003
John M. Foster 2003
Gaylen N. Larson 2001
Gerhard G. Mueller 2001

The Staff

The Board is assisted by a staff of approximately 40 professionals drawn from public accounting, industry, academe, and government, plus support personnel. The staff works directly with the Board and task forces, conducts research, participates in public hearings, analyzes oral and written comments received from the public, and prepares recommendations and drafts of documents for consideration by the Board.

FASB Fellowship Program

FASB Fellows are an integral part of the research and technical activities staff. The Fellowship program gives the Board the benefit of current experience in industry, academe, and public accounting and gives the Fellows first-hand experience in the accounting standard-setting process. Fellows take a leave of absence from their firms or universities and serve as project managers or consultants on a variety of projects.

Emerging Issues Task Force

The Emerging Issues Task Force (EITF) was formed in 1984 in response to the recommendations of the FASB's task force on timely financial reporting guidance and an FASB Invitation to Comment on those recommendations. Task Force members are drawn primarily from public accounting firms but also include representatives of large companies and major associations of preparers, such as the Financial Executives Institute and the Institute of Management Accountants. The chief accountant of the Securities and Exchange Commission attends Task Force meetings regularly as an observer with the privilege of the floor. Timothy S. Lucas, FASB director of research and technical activities, is chairman of the Task Force.

Make-up of the Task Force is designed to include persons in a position to be aware of emerging issues before they become widespread and before divergent practices regarding them become entrenched. Therefore, if the group can reach a consensus on an issue, usually that is taken by the FASB as an indication that no Board action is needed. If no consensus is possible, it may be an indication that action by the FASB is necessary.

Meetings of the Task Force are open to the public and generally are attended by substantial numbers of observers. Because interest in the Task Force is high, the FASB has separate subscription plans for keeping up to date on the issues. One, *EITF Abstracts,* is a summary of the proceedings of the Task Force and includes a separate abstract for each issue considered by the EITF since its inception, plus a topical index. *EITF Abstracts* comes in a loose-leaf version, which is updated after each Task Force meeting. A soft-bound version of *EITF Abstracts,* which is updated annually, is sold separately. EITF Abstracts are also included in the FASB's Financial Accounting Research System (FARS), available on CD-ROM or diskettes. Copies of issue summaries and minutes are available from the FASB either individually for a fee or as part of a combined subscription plan that also includes *EITF Abstracts.*

APPENDIX F: COMPARISONS BETWEEN CANADIAN GAAP, FASB STANDARDS AND IAS

TABLE A DIFFERENCES IN ACCOUNTING STANDARDS — CANADA AND IAS

SUBJECT	COMMENTARY ON DIFFERENCES (1995 BASELINE)	CURRENT STATUS
Accounting Changes	IAS require disclosure of the reason for a change in accounting principles or estimates. In Canada, a description of the change and its effect on the financials is required but disclosure of the reason for the change is not required.	Revisions to IAS #1 contain a controversial alternative allowing a '"true and fair override" if compliance with IAS would result in misleading information
Business Combinations		
a) method of accounting	Harmonized.	No change.
b) issues related to the purchase method	Differences exist with respect to the treatments of negative goodwill, the amortization period for goodwill, discounting of long-term monetary items, realization of tax benefits, deferred income taxes, adjustments for pre-acquisition contingencies, and the disclosure of proforma results of operations. Differences may exist with respect to restructuring and integration costs and the use of push-down accounting.	Revisions made to IAS in early 1998 have effectively harmonized. Furthermore, the G4+1 has committed to a position focusing on the methods of accounting for business combinations with a view to identifying a single approach which could gain the support of all members.
c) issues related to the pooling of interests method	Neither Canadian standards or IAS permit the wider access to pooling permitted in the U.S. The only significant difference in approach is that Canada treats pooling-related costs as capital transactions.	No changes since 1995. Proposals under way to eliminate pooling in both jurisdictions.
Capitalization of interest	In Canada, capitalization of interest is permitted if the related debt is attributable to the acquisition, construction, or development of a capital asset over time. The IAS benchmark treats borrowing costs as an expense. Under the allowed alternative treatment, capitalization of borrowing costs attributable to the acquisition, construction, or production of a qualifying assets is permissible.	Differences remain.
Cash flow statements		
a) purpose	In Canada the classification of specific cash flows (as operating, financing or investing activities) is dependent on how the entity views the substance of the particular item. For IAS the classification is specifically prescribed.	HARMONIZED. (Revisions to the Canadian standard [section 1540] make it effectively consistent with IAS #7.)
b) definition of cash & cash equivalents	The IAS definition is more restrictive than the Canadian and includes only cash and short-term, highly liquid investments.	HARMONIZED. (Revisions to the Canadian standard [section 1540] make it effectively consistent with IAS #7.)
c) non-cash financing & investing activities	IAS requires such activities to be separately disclosed and they are specifically excluded from the cash flow statement. In Canada flexibility to include such items in the statement of changes in financial position (SCOFP) exists.	HARMONIZED. (Revisions to the Canadian standard [section 1540] make it effectively consistent with IAS #7.)
d) disclosure issues	IAS standards require disclosure of interest and taxes paid. The Canadian standards do not require such disclosure.	HARMONIZED. (Revisions to the Canadian standard [section 1540] make it effectively consistent with IAS #7.)

Compensation	In Canada recognition of special termination benefits as an expense occurs in the period the termination decision is made. IAS do not specifically address this item.	Differences remain.
Comprehensive income	No Canadian counterpart existed or was planned.	Differences remain. (A joint G4+1 task force has issued a special report focusing on reporting & presentation of income including comp. income.)
Consolidations, etc.		
a) equity accounting	Minor disclosure differences exist.	The G4+1 released a discussion paper exploring issues related to equity accounting in spring of 1999.
b) joint ventures	Canadian standards require the use of the proportionate consolidation method only. The IAS alternative treatment permits the use of the equity method.	Differences remain but a G4+1 discussion paper proposing use of the equity method suggests that harmonization is close at hand.
Contingencies		
a) accounting for previously unrecognized contingencies	Assuming such items are reasonably estimable, IAS require accrual in period the asset was impaired or the liability was incurred. In Canada, such items may be treated as prior period adjustments (PPAs) if they meet the specified criteria.	PPA withdrawn.
b) future removal and site restoration costs	IAS are silent on this matter while in Canada provisions must be made by systematic charges to income when cost are reasonably determinable.	The IAS have approved a standard on *Provisions, Contingent Liabilities and Contingent Assets,* which places stricter rules on the recognition of a provision than current Canadian rules. Differences between the current Section 3290 "Contingencies" and IAS remain.
Deferred or Capitalized Costs	In Canada, pre-operating expenditures may be deferred and amortized if specified criteria are met. Such costs should be separately disclosed. IAS do not address the treatment of such costs.	The standards will be effectively consistent if the CICA's proposed guideline for *Enterprises in the Development Stage* is adopted. That guideline suggests that "accounting treatment be governed by the nature of the transaction rather than the degree of maturity of the enterprise".
Earnings per share	IAS do not address EPS issues which can result in some material differences in both calculation methods and disclosure issues.	Differences remain (e.g., calculation of fully diluted).
Effects of changing prices	The basis of accounting for both Canada and the IAS is primarily historical cost, however, the IAS allows revaluation of certain types of assets. In Canada disclosure of the effects of changing prices is not required. IAS encourage but do not require either of primary or supplemental disclosure.	Differences remain.
Extraordinary items		
a) definition	Canadian standards define extraordinary items more restrictively by including the criterion that such items must not depend primarily on decisions or determinations by management or owners.	Differences remain.

b) tax benefit from LCF	Canadian standards require LCF benefits to be reported in same manner as source of loss. IAS do not address this matter.	Differences remain.
Financial instruments	Minor differences may exist with respect to the offsetting of assets and liabilities.	A joint working group of the G4+1 is working to produce a measurement and recognition based standard. The adoption of the current U.S. position has been suggested as an interim measure for the resolution of existing differences.
Financial reporting in hyperinflationary economies	This item is not addressed by Canadian standards. IAS require the restatement of balance sheet and income statement items by application of a general price index conversion factor.	Differences remain.
Foreign currency transactions	The primary difference relates to the treatment of exchange gains and losses arising from the translation of long-term monetary items. In Canada, they are deferred and amortized over the remaining life of the item. IAS include such items in income.	Material differences remain. Changes not expected until the completion of the comprehensive *Financial Instruments* project.
Fundamental errors (PPAs)	The Canadian standard more rigidly defines a PPA than IAS and specifically precludes the IAS alternative treatment of including prior period items in income of the current period.	PPA section withdrawn. (Canada now requires the settlement of a previously unaccrued contingent item to be treated as a current item in all cases. Adjustments of financials of a prior period are now appropriate in only two instances - the correction of an error and a retroactive change in accounting policy.
Going concern disclosure	No differences acknowledged.	Differences remain.
Income taxes		
a) methods of recording	Canadian standards require the use of the deferral method. IAS allow the use of either of the deferral of liability methods.	HARMONIZED. (The new Canadian standard [Section 3465] is effectively consistent with IAS 12.)
b) tax benefits from loss carry forwards (LCFs)	Benefits are recorded in Canada if realization is virtually certain. Benefits are recorded under IAS if realization beyond a reasonable doubt is assured.	HARMONIZED. (The new Canadian standard [Section 3465] is effectively consistent with IAS 12.)
c) investment tax credits	Canada requires the use of the cost reduction method. IAS do not specifically address the item.	HARMONIZED. (The new Canadian standard [Section 3465] is effectively consistent with IAS 12.)
d) disclosure issues	Differences may exist with respect to the disclosure of components of income tax expense.	HARMONIZED. (The new Canadian standard [Section 3465] is effectively consistent with IAS 12.)
Intangible assets		
a) general	The item is not specifically addressed by IAS. Canada requires such assets to be recorded at cost and amortized over its useful life.	HARMONIZED. (The new IAS #38 results in harmonization.)
b) goodwill	The amortization period in Canada is the estimated useful life, not to exceed 40 years. IAS requires amortization over useful life not to exceed five years unless justifiable and then no more than 20 years.	Revisions to IAS #22 (including the rebuttable presumption with respect to useful life) result in effective harmonization.

Interim financial reporting	IAS doesn't mandate which entities should publish interims or how often; if published should follow integral approach and include a condensed balance sheet. Canada uses a discrete approach and requires the preparation of an income statement and an expanded disclosure of segment information in the interim statements.	IAS 34 and revisions to section 1750 have resulted in effective harmonization although IAS 34 does not specify which enterprises must publish or how frequently.
Inventories	Canadian standards require inventory to be valued at the lower of cost or market (market may be determined by using any of several methods including net realizable value). IAS require inventories to be valued at the lower of cost or net realizable value.	Differences remain.
Leases	The standards are conceptually similar except for the treatment of gains or losses on sale and leaseback transactions resulting in an operating lease, and the methods for recognition of finance lease income.	Broadly comparable with revisions to IAS 17 effective 01/01/99.
Non-monetary transactions	In Canada a transaction is non-monetary designation if the monetary amount does not exceed 10% of fair value. The item is not addressed by IAS although IAS 16 suggests similar treatment for exchange of certain property, plant, and equipment items.	Although IAS still do not directly address, they may now be broadly comparable given the approach to barter transactions referenced in IAS #18 (*Revenue*).
Other post-retirement benefits	Either of the "current accrual" or "pay-as-you-go" methods are acceptable in Canada. If the substance of such benefits is similar to pensions, the IAS allows them to be accounted for in a like manner. Canada requires disclosure of benefits provided and a description of the accounting policy followed. Disclosure is not required by IAS.	Broadly comparable.
Post-employment benefits	Providing the substance of such benefits are similar to pensions, IAS allow them to be accounted for in a like manner. In Canada, no specific standards exist with respect to this item.	Minor differences remain.
Pensions		
a) amortization of experience gains & losses and changes in assumptions	In Canada, costs or benefits of changes in assumptions and experience gains and losses are amortized over EARSL. IAS requires similar treatment except in certain limited situations.	Minor differences remain.
b) disclosure issues	IAS disclosure requirements significantly exceed Canadian disclosure requirements.	Minor differences remain.
Presentation of financial statements	Some minor disclosure differences existed.	Revisions to IAS #1 allow the use of an alternative approach to an IAS if the use of an IAS would be misleading.
Property, plant, & equipment		
a) cost basis	An alternative IAS allows capital assets initially recorded at cost to be restated to fair value at the balance sheet date.	Minor differences remain.
b) depreciation	Some discrepancies may exist with respect to limits on useful life and on the determination of the depreciable amount.	Minor differences remain.

c) impairment of carrying value	When there is evidence of impairment Canadian standards require the net carrying amount to be written down to its net recoverable amount. This amount is not reversed even if circumstances change. IAS allow reversals or adjustments of write-downs if circumstances change.	IAS #36 gives more guidance now than in 1995 limiting the circumstances under which reversals are allowed.
Receivables	Canadian standards provide specific guidance for the treatment of transfers with recourse, loan impairment, foreclosed loans, and restructured loans. IAS do not specifically address these items.	Minor differences remain.
Related party transactions	The measurement of related party transactions is not specifically addressed by IAS. Canadian disclosure requirements are more extensive than IAS.	Differences remain.
Shareholders' equity		
a) minority interests in consolidated subs	In Canada minority interest is reported separately from shareholders' equity. IAS require it to be reported separately from liabilities and shareholders' equity.	Differences remain.
b) mandatorily redeemable preferred stock	In Canada term-preferred shares are included in shareholders' equity. IAS do not specifically address this item.	Differences remain.
Segmented reporting	IAS and Canadian standards differ in some minor respects with regard to disclosure requirements.	New CICA recommendations (Section 1701), which are consistent with U.S. standards have widened the gap between the Canadian and international standards.

TABLE B AREAS OF DIFFERENCE IN ACCOUNTING STANDARDS — CANADA AND UNITED STATES

SUBJECT	COMMENTARY ON DIFFERENCES (1995 BASELINE)	CURRENT STATUS
Business Combinations		
a) method of accounting	There is much wider access to the pooling of interests method in the U.S. than in Canada.	Differences will be eliminated if FASB project on business combinations is completed as intended.
b) issues related to the purchase method	Differences exist with respect to the treatments of negative goodwill, discounting of long term monetary items, realization of tax benefits, deferred income taxes, and adjustments for preacquisition contingencies. Differences may exist with respect to restructuring and integration costs, push-down accounting and the disclosure of proforma results of operations.	Further to the above comment the CICA and the FASB are working to a common timetable with the objective of issuing exposure drafts proposing harmonized standards by the fall of 1999.
c) issues related to the pooling of interests method	"Pooling-related" costs are capital transactions in Canada but expensed in the U.S.	See comments above.
Capitalization of interest	In Canada, capitalization of interest is permitted if the related debt is attributable to the acquisition, construction, or development of a capital asset over time. In the U.S., interest must be capitalized on certain qualified assets that require a period of time to prepare them for use.	Differences remain.
Cash flow statement		
a) purpose	In Canada, the classification of specific cash flows (as operating, financing or investing activities) is dependent on how the entity views the substance of the particular item. In the U.S., this classification is specifically prescribed.	HARMONIZED. (Revisions to Canadian standards effective 01/08/98 have resulted in consistency.)
b) definition of cash & cash equivalents	The U.S. definition is more restrictive than the Canadian and includes only cash and short-term highly liquid investments.	HARMONIZED. (Revisions to Canadian standards effective 01/08/98 have resulted in consistency.)
c) non-cash financing & investing activities	In the U.S., such activities are separately disclosed and are specifically excluded from the cash flow statement. In Canada flexibility to include such items in the statement of changes in financial position (SCOFP) exists.	HARMONIZED. (Revisions to Canadian standards effective 01/08/98 have resulted in consistency.)
d) disclosure issues	U.S. standards require disclosure of interest and taxes paid. The Canadian standards do not require such disclosure.	HARMONIZED. (Revisions to Canadian standards effective 01/08/98 have resulted in consistency.)
e) cash flow per share	Canadian standards permit the disclosure of cash flow per share. U.S. standards do not permit the reporting of cash flow per share within the financial statements.	Differences remain.

Changes in accounting principles		
a) method of recording	In Canada, voluntary changes in accounting principles must be applied retroactively, with comparative restatement where readily determinable. In the U.S., the cumulative effect of such a change must be charged to net income in the period of the change.	Differences remain.
b) disclosure issues	The effect on prior periods and the justification for adopting the change must be disclosed in the U.S. In Canada a description of the change and the effect on the current year should be disclosed but disclosure of the reason for the change in principle is not required.	Differences remain.
Compensation		
a) stock option plans	Canadian standards are silent while U.S. standards consider ESOPs as remuneration unless they meet specified characteristics of noncompensatory plans.	Differences remain.
b) compensated absences	Canadian standards do not address this item except for the practice of accruing vacation pay earned but not taken. In the U.S., a liability is accrued on a basis similar to that for pension rights.	Differences largely eliminated.
c) deferred comp. arrangements (other than postretirement equivalents)	Not addressed by Canadian standards. In the U.S., the terms of the deferred compensation contract guide recognition in a particular year or accrual over years of service.	Differences largely eliminated.
d) special termination benefits	In Canada, recognition as an expense occurs in the period the termination decision is made. In the U.S., a liability is recognized when employees accept the offer and amounts are reasonably estimable.	Differences largely eliminated.
Comprehensive income	No Canadian counterpart for the U.S. standard (SFAS 130) exists.	Differences remain. (A joint G4+1 task force has issued a special report focusing on reporting & presentation of income including comp. income.)
Consolidations, etc.		
a) consolidation	In Canada, control of a subsidiary exists when there is an ability to govern that entity's decision making process. In the U.S. control is based on majority ownership.	See notes under Business Combinations.
b) equity accounting	U.S. standards presume significant influence exists with holdings of 20% or more. Canadian standards treat 20% as a soft guideline (20% is probably necessary but not sufficient to confirm ability to significantly influence).	The G4+1 have issued a discussion paper exploring issues related to equity accounting.
c) joint ventures	Canadian standards view joint ventures as situations of joint control and require proportionate consolidation. In the U.S. joint-venture determination is based on extent of shareholdings, and joint ventures are usually accounted for by the equity method.	Differences remain but a G4+1 discussion paper proposes use of the equity method suggesting that harmonization is close at hand.
Contingencies		
a) accounting for previously unrecognized contingencies	In the U.S., assuming they are reasonably estimable, such items are accrued in period the asset impaired or the liability incurred. In Canada, may be treated as PPA if they meet the specified criteria.	Differences remain.

b) future removal and site restoration costs	U.S. standards are silent on this matter while in Canada provisions should be made by systematic charges to income when reasonably determinable.	Differences remain.
Debt		
a) detachable stock warrants	Canadian standards are silent on this matter while in U.S. standards require proceeds allocable to such warrants be recorded as additional paid-in capital.	Differences remain.
b) induced conversion of convertible securities	Canadian standards are silent on this matter while in U.S. standards require recognition of an expense equal to the difference between fair values.	Differences remain.
c) demand obligations	In Canada, such items should be excluded from current liabilities to the extent that contractual arrangements for settlement from noncurrent assets exist. The U.S. requires classification as current liabilities regardless of anticipated liquidation date.	Differences remain.
d) defeasance of debt	U.S. standards allow debt to be treated as extinguished if specific criteria are met. Canadian standards do not address the in-substance-defeasance of debt.	Differences remain.
Deferred or Capitalized Costs		
a) development-stage enterprises	U.S. standards allow development-stage enterprises to follow accounting principles applicable to established operating firms. They must disclose the nature of the development-stage activities. Canadian standards are silent on this matter.	The standards will be effectively consistent if the CICA's proposed guideline for *Enterprises in the Development Stage* is adopted.
b) preoperating costs	U.S. standards are silent on this matter. In Canada, such expenditures may be deferred and amortized if specified criteria are met.	A proposed CICA guideline suggests that "accounting treatment be governed by the nature of the transaction rather than the degree of maturity of the enterprise."
Discontinued Operations	U.S. standards require any gain or loss from disposal of a segment to be reported as a component of discontinued operations. In Canada, any non-operating related gain or loss from discontinued operations meeting the criteria of an extraordinary item is treated as an extraordinary item.	Recognition differences continue to exist resulting in materially different approaches for accounting for future operating losses and restructuring costs.
Discounting/Imputed Interest	In the U.S., discounting is required if the interest rate on a note receivable or payable is not stated or is unreasonable given the market rate. Although the discounting is not specifically addressed in Canadian standards, in practice it is done where appropriate.	Differences remain.
Earnings per share		
a) "basic" or "primary" & "fully diluted" EPS	Although the standards are broadly similar in Canada, basic EPS is based on a weighted average of common shares outstanding during the period; in the U.S. primary EPS is based on a weighted average of common shares outstanding and common share equivalents. The determination of potentially dilutive effects is also handled differently with the U.S. using the "treasury stock method" and Canada using a "fully diluted approach".	Differences largely eliminated.

b) disclosure issues	The U.S. requires disclosure of the basis for calculations, assumptions made and resultant adjustments	Effectively harmonized.
Effects of changing prices	Disclosure of this supplementary information is encouraged under U.S. standards (although rarely provided since the discontinuance of SFAS 33 in 1986); Canadian standards have been silent on the matter since the withdrawal of HB Section 4510 in 1992.	Minimal differences.
Extraordinary items		
a) definition	Canadian standards define extraordinary items more restrictively by including the criterion that such items must not depend primarily on decisions or determinations by management or owners.	Differences remain.
b) debt extinguishment	Gains or losses from the extinguishment of debt are treated as extraordinary items in the U.S. Canadian standards do not address this matter.	Differences remain.
Financial Instruments	Although projects were in progress in both Canada and the U.S., no standards directly addressed these instruments in Canada in 1995. The extant U.S. standards prohibited offsetting of assets and liabilities unless a right of offset existed. In addition, specific disclosures of concentrations of credit risk, fair values and off-balance sheet risk were required by U.S. standards.	Major initiatives are underway internationally in this area. The “fair value” creep evident in both FASB and IASC standards suggests that financial instruments will not be an important area of difference in national and international accounting standards.
Foreign currency translation	The primary difference relates to the treatment of exchange gains and losses arising from the translation of long-term monetary items. In Canada, they are deferred and amortized over the remaining life of the item. Such items are included in income in the U.S.	Material differences remain. The CICA have postponed action until the completion of the comprehensive *Financial Instruments* project.
Going concern disclosure	Canadian standards do not specifically address “going concern disclosures” although they have been widely tackled by practitioners.	Differences remain.
Government assistance	Canadian standards for the treatment of such items turn on the nature of the assistance. If the assistance was related to current expenses it is charged to income for the period; if the assistance was for the acquisition of long–term assets it may be deducted from the related asset or deferred and amortized. The amount of assistance received should be disclosed. U.S. standards are silent on this matter.	Differences remain, due to jurisdictional differences in legislation.
Income taxes		
a) methods of recording	Canada follows the deferral method and the U.S., the liability method of income tax allocation.	HARMONIZED, with the adoption of CICA HB Section 3465.
b) tax benefits from LCFs	Benefits are recorded in Canada if realization is virtually certain. Benefits are recorded in the U.S. if more likely than not to be realized.	HARMONIZED, with the adoption of CICA HB Section 3465.
c) investment tax credits	Canada uses the cost reduction method, a method permitted but little used in the U.S., where a flow-through approach is most common.	HARMONIZED, with the adoption of CICA HB Section 3465.

d) disclosure issues	Differences exist with respect to disclosure of components of income tax expense and the deferred tax asset or liability.	HARMONIZED, with the adoption of CICA HB Section 3465.
Inventory	Both Canada and the U.S., record inventories at the lower of cost or market. The interpretation of market may differ, as Canada allows alternatives to replacement cost to determine "market".	Differences remain.
Investments		
a) investment in debt securities	In Canada "short-term" carried at lower of cost and market; "long-term" at cost with declines other than temporary recognized and charged to income. In U.S. "trading" at fair value with changes charged to income, "available-for-sale" at fair value changes are reported as a component of shareholders' equity, "held-to-maturity at amortized cost with declines other than temporary recognized and charged to income.	Differences remain.
b) investment in equity securities	No distinction is made between debt and equity securities in Canada. In the U.S., equity securities are either "trading" or "available-for-sale" with treatment as for similarly classified debt securities.	Differences remain.
c) changes in classification	The U.S. accounts for the transfer at fair value. In Canada, transfers are made at the carrying value.	Differences remain.
Interim reporting	Canada uses the discrete approach; U.S. uses the integral approach. Neither conceptual approach is rigorously adhered to however.	Differences remain.
Non-monetary transactions	In Canada, a transaction is non-monetary designation if the monetary amount does not exceed 10% of fair value. The U.S. criterion is 25%. Minor differences exist with respect to the recognition of gains or losses related on non-monetary transactions not resulting in the culmination of the earnings process.	Differences remain.
Other post-retirement benefits	Either of the "current accrual" or "pay-as-you-go" methods are acceptable in Canada. The U.S. requires accrual of benefit costs in the years when service is rendered (a treatment analogous to pensions).	Essentially harmonized, but very minor differences remain.
Pensions		
a) minimum liability	In Canada, standards do not include the notion of minimum liability, differences between amounts expensed & funded appear as deferred charges or accruals. In the U.S., if the benefit obligation exceeds the fair value of plan assets a minimum liability, at least equal to the unfunded obligation, must be recognized.	Essentially harmonized.
b) amortization of experience gains & losses and changes in assumptions	In Canada, costs or benefits of changes in assumptions and experience gains and losses are amortized over EARSL. In the U.S., only such amounts as fall outside a calculated "corridor" are amortized over EARSL.	Essentially harmonized.
c) disclosure issues	Disclosure requirements in the U.S. significantly exceed Canadian disclosure requirements.	Essentially harmonized.

Post-employment benefits	In Canada, no standards exist with respect to this item. In the U.S., if specific criteria are met the benefits are accounted for as contingencies.	Essentially harmonized.
Prior period adjustments	In Canada, if specified criteria are met PPAs are reported. (PPAs could include the correction of an error in a prior period's financial statements or other adjustments such as changes in estimates, income tax reassessments or settlements of lawsuits.) In the U.S., PPAs are permissible only when related to the correction of an error in a prior period's financial statements. Both standards require PPAs to be excluded from determination of net income for the current period.	HARMONIZED. (The prior period adjustment section has been withdrawn from the Canadian standards. The settlement of a previously unaccrued contingent item must now be treated as a current item. Adjustments of financials of a prior period are now appropriate in only two instances — the correction of an error or a retroactive change in accounting policy.)
Property, plant, & equipment		
a) depreciation	Some discrepancies exist with respect to limits on useful life. In Canada, the sinking-fund method can be used in certain limited circumstances. The sinking-fund method is not acceptable in the U.S.	Differences remain.
b) impairment of carrying value	When there is evidence of impairment Canadian standards require the net carrying amount to be written down to its net recoverable amount. This item is not specifically addressed by U.S. standards.	Differences remain.
c) capitalization of environmental cleanup costs	Canadian standards do not specifically address (in practice any betterments would be capitalized). U.S. standards normally require that environmental cleanup costs be expensed. Costs meeting specific criteria that are recoverable may be capitalized.	Differences remain.
Receivables		
a) transfers with recourse	Several technical differences exist between U.S. and Canadian positions.	Differences remain.
b) loan impairment	Several technical differences exist between U.S. and Canadian positions.	Differences remain.
c) foreclosed loans	Minor differences in the carrying values of assets acquired under a loan foreclosure exist.	Differences remain.
Related party transactions	The measurement of related party transactions is not specifically addressed by U.S. standards. Canadian disclosure requirements are more extensive than U.S. requirements.	Differences remain.
Research and Development		
a) development costs	In Canada, development costs are expensed unless they can be identified and relate to a clearly defined, technically feasible, product or process which management intends, and has the resources to take to market. In the U.S., development costs are charged to expense when incurred.	Harmonization is in progress with amendment to scope of Section 3450.
b) capital assets used in R&D projects	In the U.S., these costs are expensed in the period incurred. In Canada, such costs are apportioned over the life of the project.	Harmonization is in progress with amendment to scope of Section 3450.

c) computer software costs	Costs of developing software for sale or lease (i.e., marketing as a separate product) are treated as for development costs. In the U.S., costs incurred prior to establishing technological feasibility are expensed. Upon feasibility certain costs are capitalized and amortized.	Harmonization is in progress with amendment to scope of Section 3450.
d) accounting for R&D arrangements	Canadian standards are silent on this matter. U.S. standards require determination of the nature of obligations incurred under such arrangements. If repayment of funds depends on results of project the accounting would be different than if an obligation to repay funds existed regardless of the outcome.	Harmonization is in progress with amendment to scope of Section 3450.
Segment information	U.S. and Canadian standards differ in some minor respects with regard to disclosure requirements.	HARMONIZED. (A joint working committee of the CICA and the FASB resulted in consistent standards.)
Shareholders' equity		
a) minority interests in consolidated subs	In Canada, minority interest is reported separately from shareholders' equity. In the U.S., it is generally reported between liabilities and shareholders' equity.	Differences remain.
b) mandatorily redeemable preferred stock	In Canada, term-preferred shares are included in shareholders' equity. Public entities in the U.S. classify mandatorily redeemed preferred stock outside of shareholders' equity.	Differences remain.

TABLE C AREAS OF DIFFERENCES IN ACCOUNTING STANDARDS — IAS AND U.S. GAAP

SUBJECT	COMMENTARY ON DIFFERENCES (1995 BASELINE)	CURRENT STATUS
Accounting convention	IAS usually at historical cost, but allows the revaluation of some assets. Generally speaking, U.S. standards allow no revaluations (excepting some securities).	Differences remain.
Accounting estimate changes	Broadly comparable.	Broadly comparable.
Accounting policy changes	The IAS benchmark calls for retroactive restatement of prior year comparatives; alternatively the effect of changes can be included in net income for the current period. U.S. standards require the change to be accounted for in the current year's income, with the cumulative effect reflected in opening retained earnings.	Differences remain.
Business combinations		
a) purchase method of accounting — fair values on acquisition.	Fair value approach is broadly similar.	Broadly comparable.
b) issues related to the purchase method	Differences exist with respect to the treatments of goodwill, negative goodwill, deferred income taxes, and adjustments for preacquisition contingencies.	Project in process to harmonize.
c) issues related to the pooling of interests method	IAS limit use of the "pooling-of interests" method to "true mergers of equals". Much wider access to pooling exists in the U.S.	U.S. proposal would eliminate pooling.
Capitalization of interest	IAS benchmark treats borrowing costs as expenses; under the alternative treatment capitalization of interest is permitted if the related debt is attributable to the acquisition, construction, or production of a qualifying asset. In the U.S., interest must be capitalized on certain qualified assets that require a period of time to prepare them for use.	Differences remain.
Cash flow statements	Broadly comparable (U.S. standards provide more guidance with respect to the items to include in each of the statement categories.)	Broadly comparable
Compensation — ESOPs	IAS has no standard to address.	Some consistency achieved but differences remain specifically with respect to issues of measurement. Proposed changes to IAS #19 may alleviate some of these differences.
Comprehensive income	U.S. had no specific standards in this area.	Broadly comparable, although the U.S. allows disclosure to be combined with the income statement.
Consolidations, etc.		
a) control	IAS suggest control of a subsidiary exists when there is an ability to govern that entity's decision making process or voting control exists. In the U.S., control is based on majority ownership.	G4+1 paper released; changes may be forthcoming.

b) treatment in parent financial statements	U.S. standards always require consolidated financial statements. IAS provide the option to use equity or cost method.	See comment above.
c) exclusion of subsidiaries	The U.S. standards contain no specific exemptions. IAS allow exemptions for wholly owned (or virtually wholly owned) subsidiaries.	Broadly comparable.
d) joint ventures	IAS suggest that the method of accounting depends on the form of the joint venture (if there are jointly controlled operations or assets, use proportionate consolidation; if it is a venture between or among entities, the equity method is an allowed alternative to proportionate consolidation). In the U.S., joint-venture determination is based on extent of share-holdings, and joint ventures are usually accounted for by the equity method.	See comment under "Control."
Construction contracts	IAS used to require completed contract but proposals will require the use of percentage- of-completion when outcome can be reliably estimated. U.S. standards suggest percentage-of-completion preferable when estimates of progress are reasonably dependable.	Broadly comparable.
Contingent consideration	The U.S. does not recognize until the contingency is resolved or the amount determinable. IAS require estimation at acquisition and subsequent correction against goodwill.	Differences remain.
Contingencies	Broadly comparable.	Broadly comparable.
Discontinued operations	IAS include results of discontinued operations in profit or loss from ordinary activities; details are disclosed in notes. U.S. standards require disclosure of discontinued operations (net of tax) after income from continuing operations.	Broadly comparable.
Earnings per share	IAS do not address EPS issues which can result in some material differences in both calculation methods and disclosure issues.	Harmonized.
Effects of changing prices	Broadly comparable with decision of IASC to relax requirement of IAS #15.	Broadly comparable.
Equity accounting		
a) investments in associates	Both standards base the decision to use the equity method on the existence of significant influence.	Broadly comparable.
b) presentation of associate results	U.S. disclosure requirements exceed IAS.	Broadly comparable.
Extraordinary items	Classification of extraordinary item may differ.	Broadly comparable.
Financial instruments — disclosure and presentation	Standards in this area were undergoing considerable change in both standard-setting regimes.	Broadly comparable.
Financial instruments — measurement	See comments above.	Broadly comparable.

Foreign currency		
a) financial reporting in hyper-inflationary economies	IAS require the restatement of balance sheet and income statement items by application of a general price index conversion factor. U.S. standards require the use of the U.S. dollar as the functional currency. The temporal method is used for translation purposes, with gains or losses on non-monetary items taken into income of the current period.	Differences remain.
b) hedges	IAS did not deal with hedge accounting except for hedges of a net investment.	Broadly comparable.
Fundamental errors (PPAs)	The U.S. standard requires corrections of errors of a prior period to be reported as a PPA and excluded from determination of income of the current period. The IAS alternative treatment of prior period items allows them to be included in income of the current period.	Differences remain.
Goodwill	U.S. standards require amortization over a period of up to forty years. IAS suggest amortization over five years or if justifiable up to 20 years. As a result impairment of goodwill is more likely to eventually have to be recognized under U.S. standards.	Differences remain. (Changes to IAS now include rebuttable presumption of 20-year life.)
Government assistance	Broadly comparable.	Broadly comparable.
Income taxes		
a) methods of recording	U.S. standards require the use of the balance sheet liability method and full accounting for the deferred tax balance. IAS allow the use of either the deferral or liability methods and either full or partial allocation.	HARMONIZED. (Revisions to IAS #12 effectively harmonize with FAS #109.)
b) tax benefits from LCFs	Benefits are recorded in U.S. if realization is more likely than not. Benefits are recorded under IAS if realization beyond a reasonable doubt is assured.	HARMONIZED. (Revisions to IAS #12 effectively harmonize with FAS #109.)
c) investment tax credits	U.S. requires the use of the cost reduction or flow-through method. IAS do not specifically address the item.	HARMONIZED. (Revisions to IAS #12 effectively harmonize with FAS #109.)
d) disclosure issues	Differences may exist with respect to the disclosure of components of income tax expense.	HARMONIZED. (Revisions to IAS #12 effectively harmonize with FAS #109.)
Intangible assets	Neither the cost basis nor the amortization period for intangibles other than goodwill were specifically addressed by the IAS. The U.S. requires such assets to be recorded at cost and amortized over its useful life (no longer than 40 years). The amortization period for goodwill in U.S. would be its estimated useful life, not to exceed 40 years. IAS require amortization over useful life not to exceed five years unless justifiable and then no more than 20 years.	DIFFERENCES MAY NOW BE MORE PRONOUNCED. IAS #38 (effective 01/07/99) applies to both purchased and internally developed intangible assets (e.g., goodwill and development costs). Now includes a rebuttable presumption that the useful life will not exceed 20 years. Detailed impairments calculations and review apply. Revaluations of intangible assets (excluding goodwill) are allowed if an active market for the asset exists.
Interim financial reporting	IAS provides minimal guidance with respect to content of interim reports and doesn't mandate which entities should publish interims or how often. U.S. uses an integral approach.	Broadly comparable.

Inventories and long term contracts	FIFO, weighted average or LIFO allowed in U.S. IAS benchmark FIFO or weighted average; allowed alternative LIFO. The definition of market for LCM purposes is different.	Broadly comparable.
Investments	Under IAS, non-current investments are carried at cost or re-valued amount and current asset investments at the lower of cost or market or at market. Gains or losses on current assets held at market can go either to income or to a revaluation surplus. In the U.S., treatment depends on the classification of the investment. If management intends to hold to maturity, carried at amortized cost; trading and available-for-sale carried at fair value. Gains and losses to income for trading and to shareholders' equity for available-for-sale.	Differences remain but some current joint initiatives may reduce.
Leases	The U.S. standards are considerably more detailed than the comparable IAS. Interestingly, few differences in treatment result.	HARMONIZED. (Revisions to IAS effective 01/01/99 have increased the level of consistency between standards.)
Management discussion & analysis (operating & financial review)	U.S. standards require formal MD&A. IAS has no formal requirement.	Differences remain.
Minority interests at acquisition	IAS state at fair value or at share of pre-acquisition carrying value. U.S. standards allow only the latter option.	Differences remain.
Other post-retirement and post-employment benefits	The IAS has no standard for other post-retirement and post-employment benefits.	Broadly comparable.
Pensions		
a) minimum liability	IAS do not include the notion of minimum liability. In the U.S., if the benefit obligation exceeds the fair value of plan assets a minimum liability, at least equal to the unfunded obligation, must be recognized.	Broadly comparable.
b) amortization of experience gains & losses and changes in assumptions	IAS allow the costs or benefits of changes in assumptions and experience gains and losses to be amortized over EARSL or expensed. In the U.S. only such amounts as fall outside a calculated "corridor" are amortized over EARSL.	Broadly comparable.
Presentation of financial statements	Disclosure differences existed.	Broadly comparable, although U.S. standards require three years of financial statements except for the balance sheet.
Property, plant & equipment		
a) cost basis	An alternative IAS allows capital assets initially recorded at cost to be restated to fair value at the balance sheet date. Revaluations are not permitted in the U.S.	Differences remain.
b) depreciation	Some discrepancies may exist with respect to limits on useful life and on the determination of the depreciable amount.	Differences remain.

c) impairment of carrying value	IAS standards did not directly address.	Although IAS #36 addresses the impairment of assets including property, plant and equipment, the recoverable amount is based on present value calculations. The U.S. approach only partially applies a measurement perspective in which undiscounted future cash flows are the basis for the recoverable amount to be compared with the carrying amount.
Provisions	IAS had no standard on provisions.	Broadly comparable. Several separate standards exist in U.S., each covering specific situations.
Related Party Transactions	Broadly comparable.	Broadly comparable.
Research and Development	IAS require such costs to be expensed when incurred except for development costs that are capitalised and amortized if certain conditions are met. U.S. standards require expensing of such costs as incurred (after the confirmation of technological feasibility certain software development costs should be capitalized).	Harmonization is in progress but significant differences remain.
Revenue (expense) recognition	IAS had no specific standard.	The standards are now broadly comparable although the IASC has one general standard while there are many U.S. standards meant to cover specific industries and situations.
Segmented reporting	IAS and U.S. standards differ in some minor respects. U.S. standards are more detailed with respect to disclosure requirements and application of accounting policies.	Conceptual differences exist; practical differences *may* be minimal.
Shareholders' equity		
a) mandatorily redeemable preferred stock	In U.S., redeemable preference shares are found between debt and equity (a mezzanine category item). IAS classification is based on the substance of the instrument and therefore treats as a liability.	Differences remain.
b) compound instruments (e.g., convertible debt)	IAS require classification and splitting (into component parts) based on substance. U.S. standards require accounting for as a single instrument unless component parts can be transferred or redeemed independently.	Differences remain.
c) presentation — minority interest	IAS as part of shareholders' equity (entity approach). U.S. standards as a mezzanine category, between shareholders' equity and liabilities (proprietary approach).	Differences remain.
True and fair view override	IAS require disclosure of the reason for a change in accounting principles or estimates. In U.S., the nature of justification for a change, including why the new principle is preferable to the old should be disclosed.	Revisions to IAS #1 contain a controversial alternative allowing a "true and fair override" if compliance is misleading.