

1 Introduction

Macroeconomic and banking issues have featured prominently in explanations of the cause of the East Asian financial crisis (Johnson et al, 2000). The failure of corporations and banks in East Asia has also been attributed to microeconomic problems, specifically the existence of a highly leveraged corporate sector, substantial private sector reliance on foreign currency borrowing and a lack of transparency in accounting information (Rahman, 1998).

More generally, weaknesses in corporate governance systems have been used to explain the breadth and depth of the crisis (Johnson et al, 2000). Thus the economic and legal environments are important determinants of the extent of confidence of domestic and foreign investors in a particular country and/or region. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2000) illustrate that, across countries, corporate governance is an important factor in financial market development and firm value. Country-specific measures of corporate governance rather than standard macroeconomic variables provide a better explanation of the extent of currency depreciation and stock market decline of emerging markets during the East Asian financial crisis (Johnson et al, 2000).

If corporate governance is a significant factor in explaining the crisis, differences in corporate governance should explain not only country-specific diversity in reaction but also firm specific reactions within countries. Firms that had indicators of higher disclosure quality were found to have experienced significantly better stock price performance during the East Asian crisis (Mitton, 2002). Higher disclosure quality can emerge formally, through mandated disclosure requirements of the listing exchange, for example via a listed American depository receipt, or informally, through a larger pool of investors generating increased demand for disclosure and increased scrutiny of the firm's reports. Thus while the economic and legal environments are important determinants of the extent of confidence of domestic and foreign investors in a particular country and/or region corporate governance could also explain cross-firm differences in performance within countries.

Rahman (1998) examined the 1997 reports of selected corporations and banks in five East Asian countries affected by the crisis and found that most of these entities did not follow International Accounting Standards (IAS). He concluded that the provision of reliable microeconomic financial information would be enhanced by "concerted national and international efforts ... to develop and implement international accounting and reporting standards". This study examines an important component of the governance structure, viz. International Accounting Standards and in particular compliance with International Accounting Standards by the largest corporations in the East Asian region in 2001. It therefore provides an indication of the level of harmonisation of accounting relative to that observed in Rahman 1998.