

## 5. Summary

The objective of this study was to examine the extent to which accounting standards of selected East Asian countries are consistent with IASs and the extent to which practices of selected East Asian companies conform to the requirements of IASs. This study complements a similar study of compliance by Rahman (1998) to evaluate the “lessons learned” since the East Asian crisis.

This study identified a number of cases where the requirements of IASs had been adopted prior to adoption in the domestic accounting standards, that is, de facto harmonisation. We observe preparers of accounting information increasing the level of voluntary disclosures in line with IASs where domestic regulation does not meet market expectations. Such a reaction is consistent with the findings of Mitton (2002) that firms with higher disclosure quality experienced significantly better stock price performance during the East Asian crisis. Firm-specific corporate governance initiatives augment country-specific responses to the East Asian crisis.

While the level of overall observance of and compliance with IASs reported in this study exceeds that reported in Rahman (1998), reporting practices vary markedly between countries within the sample. Care should be exercised, however, in drawing conclusions on an individual country or regional basis given disparate sample sizes and sample selection.

### Lessons Learned

Convergence of domestic standards with IASs contributes to de jure harmonisation. Individual countries in the region have varying rates of convergence with each making substantive progress towards adoption of high quality, global accounting standards. Attention should now also be directed to the application of accounting standards. Two related issues beyond the scope of this study but nevertheless worthy of comment are the interpretation and enforcement of accounting standards.

For countries used to writing accounting regulation as highly detailed rules, the movement to IASs based on principles may allow more discretion in application, increasing the demand for a country-specific interpretation. Although the International Accounting Standards Board provides Interpretations of International Accounting Standards issued by the Standing Interpretations Committee they are not developed as explicit rules covering every conceivable circumstance. Measuring harmonisation in such circumstances becomes increasingly problematic. From an investor perspective, greater transparency should assist the efficient functioning of capital markets.

Second, the reporting environment is also a function of the effectiveness of the mechanisms for monitoring accounting practices. Compliance issues include the regulatory status of accounting standards and the roles and responsibilities of the profession vis a vis corporate and security regulators. Accounting education and training are pivotal to the efficient operation of capital markets. Moreover, concurrent acceptance of IASs and domestic

standards may severely challenge the resources of the profession and domestic security regulators. In short, the speed of harmonisation towards IASs should match the stage of development of each country's professional and regulatory institutions.

There is also scope for a regional response to harmonisation in East Asia. The formation of a Standards Advisory Council to the IASB provides for regional representatives to consult with the IASB on major policy decisions. The Confederation of Asian and Pacific Accountants is uniquely placed to focus attention on common issues arising from the "East Asian crisis" and formulate an East Asian response. Collective initiatives are in addition to the firm and country-specific mechanisms referred to earlier to assist in restoring confidence in the region.